

Indiana Department of Revenue



Annual Report

October 1, 2002

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LETTER FROM THE COMMISSIONER

October 1, 2002

The Honorable Franklin O'Bannon
Governor, State of Indiana
State House, Room 206
Indianapolis, Indiana 46204-2797

Dear Governor O'Bannon:

It is my pleasure to present to you a copy of the Indiana Department of Revenue's thirteenth annual report. The report provides you and the Indiana Legislative Council with a summary of the department's accomplishments and also meets all legal requirements set forth by Indiana Code 6-8.1-1-8, which is known as the Indiana Taxpayer Bill of Rights.

Also, as Commissioner, I attest that the department is in compliance with Indiana Code 6-8.1-3-2.5, which states that the department may not include the amount of revenue collected or tax liability assessed in the evaluation of an employee; nor may it impose or suggest production quotas or goals for employees based on the number of cases closed.

Sincerely,



Kenneth L. Miller
Commissioner

ABOUT THE INDIANA DEPARTMENT OF REVENUE

Mission Statement

The Indiana Department of Revenue will administer the tax laws of the State of Indiana in an equitable and courteous manner to promote the highest degree of public trust and voluntary compliance.

Motto

“Committed to public trust and service”

Department Divisions

Administration

Sections: Commissioner, Deputy Commissioner, General Counsel to the Commissioner, Director of Operations.

The four main components of this division assist in overseeing the entire agency.

Audit

Sections: Audit Billing/Inquiries, Audit Review, Audit Selection, Operations, Travel and Supplies, Special Tax, Field Auditing and Taxpayer Services in District Offices.

This division promotes voluntary compliance throughout the state and the country in all Indiana tax areas through quality examinations. It is also responsible for the department's 11 District Offices, which are located throughout Indiana.

Collections

Sections: Correspondence, Billings/Agent, Phone Pursuit, Title/Licensing.

This division provides centralized management in the collection of delinquent tax liabilities.

Compliance

Responsibilities: Aircraft, Bankruptcy, Charity Gaming, Consumer Use Tax, Corporate Dissolution, Corporate Federal Audit Adjustments, Corporate Reinstatements, Discovery Projects, Doubtful Exemption User Billings, Fiduciary Tax, Fuel Tax Refunds, Individual Income, Letters of Good Standing, Motor Vehicle Sales Tax, Neighborhood Assistance Credits, Not-for-Profit, Notice of Administration, Prepaid Sales Tax, Refund Specials, Responsible Officer Billings, Sales Tax Refunds, Tax Clearances, and Voluntary Compliance Program.

This division researches, develops, tests and implements various projects that identify non-filing, noncomplying taxpayers for the following taxes: corporate, individual, sales/use, food and beverage, county innkeepers, aircraft, fuel and withholding. It also is responsible for all voluntary compliance agreements completed with previously unregistered taxpayers.

All information for registration of aircraft and not-for-profit organizations is conducted by this division, as well as the approval and issuance of all charity gaming licenses (e.g. raffles, bingo, door prizes, pull-tabs and punch boards). Records are researched for bankrupt individuals and businesses to identify tax liabilities and unfiled tax returns for the purpose of submitting “proof of claims” to the various bankruptcy courts. Outreach through educational seminars and projects is conducted in an effort to promote voluntary compliance by Indiana taxpayers.

Controller

Sections: Budget Analyst, Business Administration, Accounting/Counties, Cigarette Tax and Other Tobacco Products, Mail Services.

This division handles budgeting and purchasing for the department under the guidance of the Controller. Other responsibilities include depositing of tax revenues, preparing appropriate reports and conducting all related banking functions. The Controller's Office administers those taxes collected by the state and returned to the county of origin. This division also handles the inventory and sale of cigarette tax stamps.

Criminal Investigation

Sections: Case and Data Management, Charity Gaming Enforcement, Controlled Substance Excise Tax, Private Employment Agency Licensing, Internal Affairs, Motor Fuel Fraud, Motor Vehicle Excise Tax, and Fraud Investigations/Audit.

The division's primary mission is to detect fraud and prosecute tax evaders. It is responsible for conducting investigations into alleged violations of Indiana tax laws and determining civil liabilities or presenting evidence for criminal prosecution in an effort to increase voluntary compliance.

The majority of these investigations involve the collection and failures to remit trust taxes. The division also monitors charity gaming operations throughout the state and works in conjunction with the Indiana State Police to monitor the unlawful use of dyed fuel on the highways. The division also cooperates with prosecuting attorneys throughout the state in assessing the controlled substance excise tax on those illegally possessing certain drugs and monitors and enforces the collection of the Motor Vehicle Excise Tax from Hoosiers who plate their vehicles outside Indiana. This money is returned to the county where the taxpayer legally resides. The department also conducts background investigations on all employment prospects and investigates alleged employee wrongdoing. The division is also responsible for the investigation and licensing of Private Employment Agencies.

Information Technology

Sections: Administrative Services, Operations, Systems & Programming, Technical Support.

This division supports the department's efforts and goals by creating and administering computerized tax processing systems for the other divisions of the department. This division operates with a goal of providing tax processing systems that are increasingly easier to use; constantly improving efficiency and service to the taxpayer; and maintaining secure and confidential records.

Legal

Sections: Appeals, Litigation, Inheritance Tax, and Protest Review.

This division includes the department's legal staff, which oversees the appeals process from an original tax protest to the Indiana Tax Court. This division also contains the Inheritance Tax Section, which collects tax on all taxable transfers of property resulting from the death of an Indiana resident, or a nonresident decedent, with real or tangible personal property located in Indiana.

Motor Carrier Services

Sections: Customer Service Center, Motor Carrier Road and Fuel Use Taxes, International Vehicle Registration Plan, Safety & Insurance Registrations, Commercial Driver's Licensing, Oversized & Overweight Vehicle Permitting, Accounting & Fund Distribution.

This division provides all of the above tax and registration services to the motor carrier community. The division also collects and distributes revenue to other states and Canadian provinces in accordance with international agreements. Equally important is the effort to work in partnership with the Federal Motor Carrier Safety Administration and other stakeholders to promote and increase safe highway operations, resulting in fewer commercial carrier accidents and fatalities.

The Motor Carrier Services Division operates a "one stop shop." It is located at the Ameriplex Office Park on the southwest side of Indianapolis, offering a "One-Stop-Shop" for the trucking community.

Network Security and Administration

Sections: Administration, Intra/Internet Development, Network/Server Development, Software Support, Local Area Network (LAN)/Client Support, Application Development.

This division supports the department's mission by providing a reliable and secure LAN/WAN (Wide Area Network) environment. The division accomplishes this goal by providing client-server application development, network and LAN administration, software and desktop support, network security, computer-based training and Webmaster services.

Personnel

Sections: Training, Administration, Affirmative Action, Wellness, Payroll/Benefits.

This division administers all "human resource" aspects within the department, including employee and supervisor training, wellness programs, recruiting, payroll and benefits, labor relations, and governmental regulatory administration. It also assists with employee morale programs.

Public Affairs and Taxpayer Advocate Office

Public Affairs Section: Form Development and Revisions, Outreach Education, Practitioner Services, Tax Preparation Software approval, Indiana TaxFax, Web content for the department's Web site, media relations and publications.

This division administers tax form revision and editing, internal and external education, approves software companies and their Indiana tax preparation software and the Indiana TaxFax form distribution system. It also coordinates content for the department's Web site, handles media inquiries, publicity, edits both the department's annual and charity gaming reports, as well as internal and external publications for tax professionals, nonprofit organizations and employees.

Taxpayer Advocate Section: Taxpayer Advocate.

The Office of the Taxpayer Advocate is designed to address complex and special tax problems. The primary goal is to correct exceptional tax problems. The secondary goal is to identify and restructure departmental processes and procedures which may have created or contributed to legitimate problems. A taxpayer's problem is considered exceptional if 1) attempts at resolution through normal departmental channels have been unsuccessful; or, 2) an ongoing, continual problem exists with the filing of tax returns; or, 3) continual assessments result from systematic processing problems.

Quality Assurance

Section: Quality Systems.

This division oversees the development, testing and ongoing changes to the department's Returns Processing System (RPS). The Quality Assurance Division also monitors system output to ensure standards of quality and to assist in problem identification.

Returns Processing Center (RPC)

Sections: A/R Payments, Batch and Edit, Unidentified Checks, Check Processing, Low Volume Data Entry, Electronic Funds Transfer, Forms Processing, Mail Open and Sort, Mail Out, Forms Order, Print Shop, Logistic Support, Data Capture, Corporate Income Tax, Individual Income Tax, System Services, Fuel Tax, Environmental Tax, Return Mail, Business Communication, LAN Support, Administration and Administrative Support.

The Returns Processing Center receives, processes and posts nearly all of the returns and payments received by the department to taxpayer accounts in the Returns Processing System. In addition, this area works with several taxes for which the records are maintained on stand alone P.C. systems which are maintained by the department or other agencies for which the taxes are collected. This area works with several other agencies such as Work Force Development, Environmental Management and Department of Natural Resources to collect various taxes and fees for them.

The Returns Processing Center assures that all returns are posted in an accurate and timely manner which then allows the rest of the department to access the data they need to complete their job functions. The Returns Processing Center works with other divisions within the department to see that retention records are established and adhered to, printing various tax forms and related information for the department, and, when time permits, for other state agencies.

The Forms Order Section provides assistance to accountants, taxpayers, banks and anyone else who needs a single tax return or a supply of tax forms. Taxpayer assistance to Corporate, Sales, Withholding, Fuel, Environmental, Cigarette and Alcoholic Beverage tax accounts are handled by this area, also. The RPC continues to search for new technology and new ways to use existing technology to allow for faster and better ways to receive, process and post any and all of the tax returns received by Indiana Department of Revenue.

Tax Policy

Sections: Policy Research, Fiscal Analysis, Technical Tax Research, Legislative Affairs.

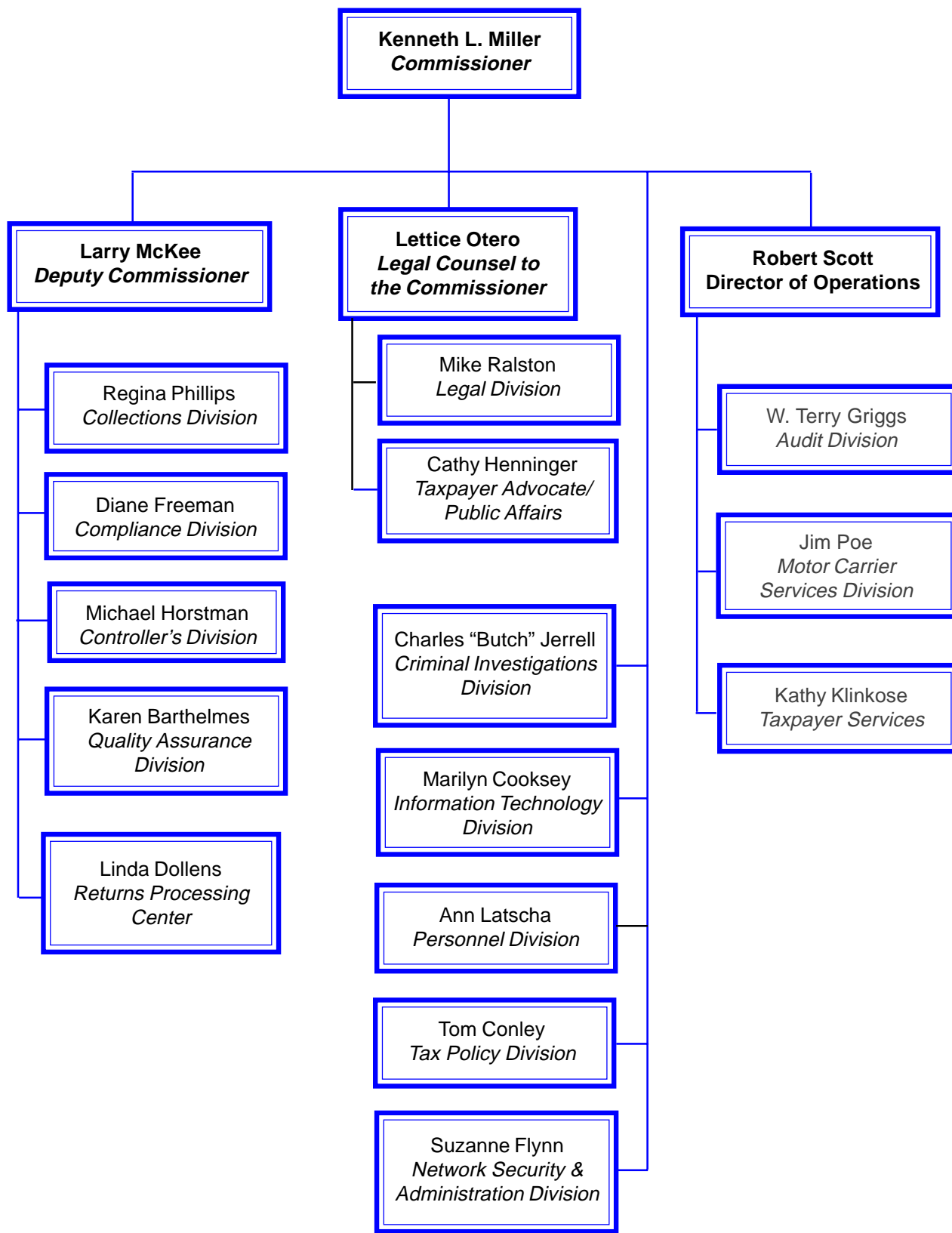
This division primarily works with legislative efforts, serving as a legislative liaison for the Indiana General Assembly. It issues rulings, policy directives and information bulletins, as well as helps to determine the correct interpretation of the law. This division also provides tax statistics to both federal and state agencies as well as to other states.

Taxpayer Services

Sections: Telephone Section, Correspondence, Research and Support, and Taxpayer Assistance.

This division provides walk-in and telephone assistance to Indiana taxpayers, as well as via e-mail and written correspondence. It combines many direct contact functions generally involving three major tax types: individual income tax, sales and withholding taxes.

DEPARTMENTAL STRUCTURE



The Indiana Department of Revenue has 915 employees.

TAX HELP INTERNET ACCESS

Access to forms, information bulletins and directives, tax publications, e-mail, I-File (the PC-Filing Program), et al.

www.IN.gov/dor/

TAX HELP TELEPHONE NUMBERS

AUTOMATED INFORMATION LINE

Check on the status of refunds; prerecorded tax topics; tax liability balances.

(317) 233-4018

COLLECTION/LIABILITY INQUIRIES

(317) 232-2165

CORPORATE TAX INFORMATION

(317) 615-2662

INDIANA TAXFAX SYSTEM

Call from the telephone portion of your FAX machine to retrieve tax forms and information bulletins.

Available 24 hours a day.

(317) 233-2329

INDIVIDUAL INCOME TAX INFORMATION

(317) 232-2240

MOTOR CARRIER SERVICES

(317) 615-7200

SALES TAX INFORMATION

(317) 233-4015

TAX FORMS ORDER LINE

Available 24 hours a day

(317) 615-2581

TELEPHONE DEVICE FOR THE DEAF (TDDY)

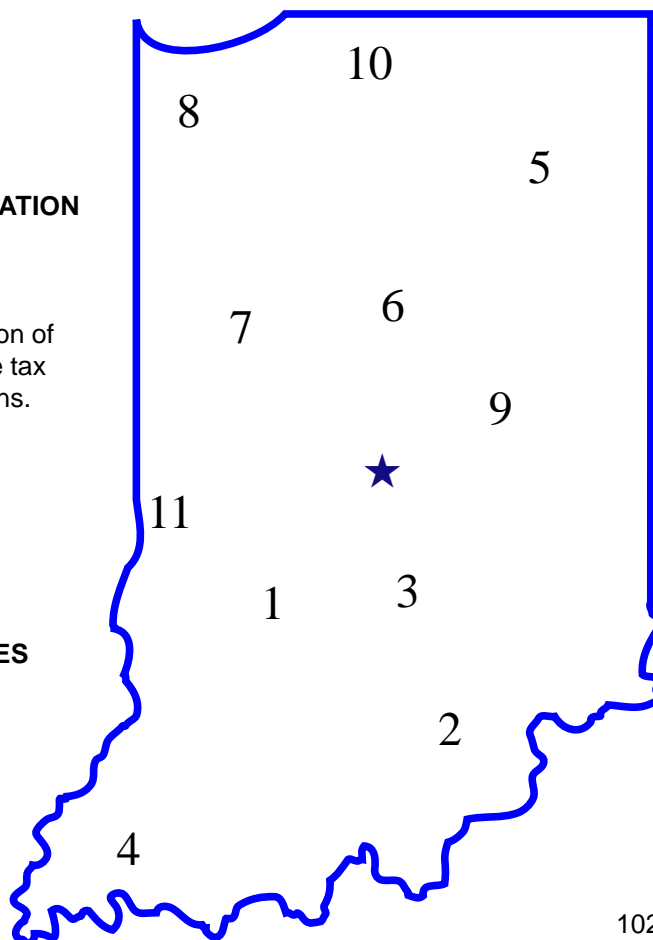
(317) 232-4952

WITHHOLDING TAX INFORMATION

(317) 233-4016

★ INDIANAPOLIS (MAIN OFFICE)

Indiana Government Center
North, Room N105
100 N. Senate Avenue
Indianapolis, IN 46204
(317) 232-2240



DISTRICT OFFICES

1) Bloomington

410 Landmark Avenue
Bloomington, IN 47403
(812) 339-1119

2) Clarksville

Physical Location

1446 Horn Street
Clarksville, IN 47129

Mailing Address

P.O. Box 3249
Clarksville, IN 47131-3249
(812) 282-7729

3) Columbus

3138 N. National Road
Columbus, IN 47201
(812) 376-3049

4) Evansville

500 S. Green River Rd.
Goodwill Building
Suite 202
Evansville, IN 47715
(812) 479-9261

5) Fort Wayne

1415 Magnavox Way
Suite 100
Fort Wayne, IN 46804
(260) 436-5663

6) Kokomo

117 E. Superior St.
Kokomo, IN 46901
(765) 457-0525

7) Lafayette

100 Executive Dr.
Suite B
Lafayette, IN 47905
(765) 448-6626

8) Merrillville

8368 Louisiana Ave.
Suite A
Merrillville, IN 46410
(219) 769-4267

9) Muncie

3640 N. Briarwood Lane
Suite 5
Muncie, IN 47304
(765) 289-6196

10) South Bend

1025 Widener Lane, Suite B
South Bend, IN 46614
(574) 291-8270

11) Terre Haute

30 N. 8th St., 3rd Floor
Terre Haute, IN 47807
(812) 235-6046

RETURNS PROCESSING CENTER

ALTERNATIVE FILING METHODS

It is the goal of the Indiana Department of Revenue (IDOR) to process as many individual income tax returns through alternative means as possible. By "alternative means" of filing, the department is referring to any tax returns that can be filed without the use of paper forms that need to be pre-edited and key punched. Thus far, 53% of all Hoosier taxpayers have chosen one of the following alternative means of state income tax filing: Two-Dimensional Barcode, Federal/State E-File, Federal/State TeleFile, Federal/State On-line Filing and the Indiana I-File program.

Continued Success of the Two-Dimensional Barcode Program

The Indiana Department of Revenue continues to have great success with the two-dimensional (2-D) barcode as one of the many alternative methods of filing the Individual Income Tax Returns.

The department worked with eight software companies that can produce the two-dimensional barcode on paper individual income tax returns. In addition, there are six software companies that can produce the two-dimensional barcode on paper corporation income tax returns. All of the data shown on the paper return is captured and stored in the barcode, itself. By simply scanning the two-dimensional barcoded return, the processing time is cut significantly. The department has determined that a group of 60 barcode returns can be batched and processed into the Returns Processing System within 15 minutes. A similar number of regular paper returns will take approximately three hours to process.

The department has received approximately 2.9 million individual income tax returns so far this year, and over 564,500 of the 1.9 million paper returns filed have been submitted with the scannable two-dimensional barcode on the front of the return. During the previous tax year, when there were eight software companies involved in this program, the department received over 534,500 two-dimensional individual income tax returns with this program. This is an increase of approximately 5.6%.

Corporate and Fiduciary Two-Dimensional Barcode Filing

In the second year of Corporate two-dimensional barcode filing, three new Corporate forms were added to the program. Forms IT-20S, IT-65 and IT-20NP, along with forms IT-20 and IT-20SC that were previously available, resulted in approximately 40,000 corporate barcode filings through the first half of the year, compared to fewer than 4,000 for the entire previous year. In addition, fiduciary returns (form IT-41) were added to the program this year. Nearly 9,000 have been filed so far.

Electronically Filed Individual Income Tax Returns

The Federal/State E-File, Federal/State TeleFile, Federal/State On-line Filing, and Indiana I-File programs are true electronically-filed tax returns by either a computer or a telephone.

All federal/state filing programs require the Federal and Indiana individual income tax returns to be filed together and sent to the IRS. Once the IRS has accepted the filing of the federal return, they will allow Indiana to retrieve state returns for processing. If the federal returns are accepted by the IRS, the department receives and posts the electronic returns to the Returns Processing System in only two to three days from the time they were first electronically transmitted. The Indiana I-File program is what is known as a stand-alone program, with only the Indiana individual income tax return being filed through the Internet. Once accepted, these returns are posted to our Returns Processing System in two days from the day it was transmitted.

Since 1992, Indiana has been involved with the Federal/State E-File program, a program that has steadily increased in its number of filers. Of the 2.9 million individual income tax returns received this year, almost 742,000 were filed through this program (an increase of 15% over last year). With this program, taxpayers have their individual income tax returns filed through an Electronic Return Originator (ERO), usually a paid tax practitioner.

Indiana began accepting returns from the IRS on two additional programs in 1998. These two programs were the Federal/State TeleFile and Federal/State On-line Filing programs. The Federal/State TeleFile program allows qualified Indiana residents to file their federal and state returns with a touch-tone telephone absolutely free of charge. Taxpayers who qualify should receive both the Federal and Indiana TeleFile booklets (Indiana's is wrapped with the IT-40EZ Booklet). This year, over 72,000 Indiana taxpayers used the TeleFile Program, a 1% increase over last year.

The Federal/State On-line Filing program was designed for those taxpayers who like to complete their own tax forms and want to file their federal and Indiana returns from their home computer. The software for this program is practically the same as that used by the paid practitioners in the Federal/State E-file Program. This program seems to be the hottest ticket in electronic filing. Revenue has received over 143,000 Indiana individual income tax returns through this program this year -- for a 58% increase.

Over 43,000 Indiana taxpayers took advantage of the Indiana I-File Program this year, an increase of 26% from the previous year.

Altogether this year, the department has received over one million electronically-filed Indiana individual income tax returns. Overall, this is an increase of 19% from last year's final electronic filing figures.

Looking to the Future

Indiana, along with all of the other states involved in the Federal/State E-File Program, has been working with the IRS to allow Electronic Filing Originators (ERO's) to file a state-only return through the federal/state program. This would allow taxpayers who are not required to file a federal return, but are required to file a state tax return, to take advantage of this fast and accurate tax processing system. This would be a great help to taxpayers claiming the Unified Tax Credit for the Elderly.

Returned Mail

Two-dimensional (2-D) barcode functionality was incorporated into IDOR's Returned Mail Section in February 2002. A 2-D barcode is now printed on all correspondence and notices generated from our Returns Processing System (RPS). Whenever RPS-generated correspondence or notices are returned to IDOR undeliverable, an operator in the Returned Mail Section scans the barcodes, which flags those taxpayers' addresses in the RPS system with Post Office Returned (POR) indicators. This prevents future mailings to that particular address, thereby saving the state the costs for additional mailings to a bad address. If the United States Postal Service has provided a new address for the taxpayer, or a new address has been entered in RPS subsequent to the mailing, the operator can generate a preprinted envelope with the new address for remailing. The department receives thousands of pieces of returned mail annually, and this process has enabled the Returned Mail Section to maintain a backlog of no more than two weeks.

Electronic Funds Transfer (EFT) Section

The EFT Section is responsible for facilitating the electronic payments of certain business, riverboat, pari-mutuel gambling and other taxes collected by vendors on behalf of the state. The EFT staff offers full service assistance to business taxpayers who remit electronically. From EFT registration to problem resolution, the EFT staff is available to provide assistance and answer questions. During the State's fiscal year July 1, 2001 to June 30, 2002, over \$7.5 billion were processed through this section.

TAXPAYER SERVICES

Scanning of Returned Refund Warrants

During FY02 Taxpayer Services Division began the new procedure of scanning returned refund warrants. When tax refunds are returned as undeliverable from the United States Postal Service, the barcodes located on the front of the refund warrants are scanned to code the taxpayers' accounts in our Returns Processing System. If there are new addresses on file for the taxpayers, envelopes are printed with the new addresses, and the refunds are remailed right away. If new addresses are received at a later date, address labels are printed overnight, the refund warrants pulled and remailed the next business day. In both cases the refund warrants' barcodes are scanned again to show that the refunds have been remailed. This automated process allows taxpayers to receive their refunds more quickly.

New Q-Matic Numbering System

A Q-Matic Numbering System has been installed. This system allows the department to determine how many taxpayers have been assisted by category and to analyze statistics on the type of services rendered. It also provides an automated ticketing system for Taxpayer Assistance.

Taxpayer Service Assistance Section hours

Taxpayer Services Assistance Section made the following changes in its hours of operation:

- The Walk-In Assistance Center is now open from 8:00 a.m. to 4:30 p.m.
- The Call Center is open from 8:15 to 11:15 a.m. and 12:30 to 4:30 p.m.

PERSONNEL

Automated Timekeeping System

The Payroll/Benefits Section implemented a new automated timekeeping system. In the past, this function was on paper and data was input manually. Automating this function has saved approximately 20 man-hours per pay period.

Supervisor FML Training

The Payroll/Benefits Section also provided training for 60 Revenue supervisors on how to identify employees potentially needing Family Medical Leave (FML) and how to assist them in applying for this benefit, among other FML procedures.

Union/Management Concerns

During FY02, the Health and Safety Committee comprised of management and Unity Team Members met three times. The following issues were addressed by this committee:

Due to the incidents of September 11, 2001, there was an increased concern of bio-terrorism. The committee helped to formulate Mail Opening Procedures and precautionary measures.

This Committee continues to work on an evacuation plan for the Indiana Government North Center that will be coordinated with Facilities Management.

Bring Your Youth to Work Day

Approximately 70 children participated.

State Employee's Community Campaign (SECC)

Our agency raised \$46,206 through payroll deduction. We had 69.7% of our employees give through payroll deduction, which is an increase of 14.2% over the previous year.

TAXFAX

During Fiscal Year 2002, the TaxFax system answered 11,949 calls, which was 3.5% down from the 2001 fiscal year. This decrease coincides with the increased development by the department and increased usage by taxpayers of the department's Internet site (www.IN.gov/dor), where forms are available for downloading.

2002 LEGISLATIVE SUMMARY -- NEW AND AMENDED STATUTES

■ HEA 1001ss Provisions Affecting the Department of Revenue, Pg. 14 (As Signed on June 28, 2002, Special Session)

■ LEGISLATION PASSED BY THE 2002 INDIANA GENERAL ASSEMBLY

SEA 17. IC 6-3.5-1.1-10; IC 6-3.5-7-16; and NON-CODE, effective March 28, 2002. Provides that Porter County has until May 16, 2002 to adopt an ordinance to enact CAGIT, COIT, or CEDIT. Funds will be used to pay back a loan from the rainy day fund. Provides that the tax if enacted will take effect on July 1, 2002. If enacted, there will be four special distributions of the certified distribution. They will occur in October, January, May, and November after enactment.

SEA 50. IC 6-3-1-31; IC 6-3-1-32; and IC 6-3-1-3.5, effective January 1, 2001 (Retroactive). Exempts income of individuals and estates from income tax for any settlement payment to the individual, their estate, or the income of relatives of the victim, to the extent that the income is included in federal adjusted gross income, and received as a result of the September 11 terrorist attacks.

SEA 52. IC 6-2.5-4-6; and IC 6-8.1-15, effective August 1, 2002. This bill implements the federal Mobile Telecommunications Sourcing Act. States have until August 1, 2002 to conform or be preempted from imposing sales tax on outside the state (roaming) calls. The bill provides a standardized method for taxes, charges, and fees levied on wireless telephone service to be paid to the jurisdiction where the customer's primary use of services occurs by establishing a "place of primary use." Requires that the department provide an electronic database to the home service providers which contains the zip codes for Indiana.

SEA 99. IC 6-2.1-3-33, effective July 1, 2002. Provides that county on-site waste management districts are exempt from the gross income tax.

SEA 252. IC 6-4.1-5-3; IC 6-4.1-5-9; and IC 6-4.1-5-11, effective July 1, 2002. Eliminates the requirement that the department be notified by the county inheritance tax appraiser when an appraisal or a hearing on the report of the appraisal is going to take place. Still requires the department to be sent a copy of the appraiser's final determination of the fair market value.

SEA 461. IC 6-2.1-3-33, effective July 1, 2002. Provides that county on-site waste management districts are exempt from the gross income tax.

SEA 481. IC 9-13-2-187.5; IC 9-20-5-4, effective March 27, 2002. Provides the definition of "trip" for purposes of special weight permits for the movement of vehicles with a total gross weight greater than 80,000 pounds and less than 134,000 pounds to be a 24 hour period. It also changes the designation of certain heavy-duty highways.

HEA 1001. IC 9-24-6-12, effective March 26, 2002. Provides that a hazardous material endorsement for a commercial drivers' license cannot be issued to individuals if they have been convicted of certain crimes.

HEA 1138. IC 6-9-2-3, effective July 1, 2003. Expands the membership of the Lake County convention and visitor bureau from thirteen (13) members to fifteen (15) members.

HEA 1195. IC 6-2.5-6-1; IC 6-3-1-11; IC 36-7-26-23; and IC 36-7-26-24, effective January 1, 2002 and April 1, 2002 (Retroactive). Reinstates reporting periods and payment thresholds for the sales tax that were mistakenly changed during the last legislative session. Updates the Indiana Code to coincide with the Internal Revenue Code's definition of adjusted gross income as in effect on January 1, 2002. Provides that the maximum sales tax increment financing distribution to the South Bend community revitalization enhancement district will be \$1,000,000 per year, instead of \$1,000,000 over the life of the district. Expands the usage of funds for the South Bend community revitalization enhancement district.

HEA 1196. IC 6-3.1-13, effective January 1, 2003. Expands the EDGE credit program to include projects that

are for job retention, and not just job expansion. The job retention criteria requires that the applicant employs at least 200 employees. The average compensation must exceed the county average by 5%, and the local unit must contribute \$1.50 of incentives for every \$3.00 of credits provided. The job retention credit is capped at \$5,000,000 per year in FY 2004 and FY 2005. All job retention credits must be approved by the budget agency. Eliminates the requirement that an applicant for job creation credits must verify that there is another state competing for the project.

CAGIT

IC 6-3.5-1.1-2, -2.8, -2.9, and -3.6, effective March 28, 2002. Provides that Daviess, Elkhart, and Marshall counties may adopt an additional CAGIT rate to pay for jail and other criminal justice facilities. The additional rate can be imposed at 0.15%, 0.20%, or 0.25%. Provides that Union County may adopt an additional 0.25% CAGIT rate to pay for courthouse improvements.

IC 6-3.5-1.1-9.5, effective July 1, 2002. Requires a county that desires to reduce its CAGIT balance from six months to three months must adopt an ordinance after January 1 and before April 1. Provides that the special distribution is a onetime distribution.

IC 6-3.5-1.1-21, effective July 1, 2002. Requires the department to notify by July 2 of each year all counties that have adopted CAGIT of the balance in the county's adjusted gross income tax account, and the six month or three month balance that is required to be maintained.

IC 6-3.5-1.1-21.1, effective July 1, 2002. Provides for the department to make a distribution to the counties if recommended by the budget agency of any excess balance in a county's account. The distribution will be made in January of the following year after a county adopts an ordinance to reduce its balance.

COIT

IC 6-3.5-6-17.2, effective July 1, 2002. Provides that the department will notify each COIT adopting county by July 2 of each year, the county's special account balance for the end of the preceding calendar year, and the county's required three month or six month balance, whichever applies.

IC 6-3.5-6-17.3, effective July 1, 2002. Provides that if the department, upon recommendation from the budget agency, determines that an excess balance exists in a county's account, the department may make a supplemental distribution.

CEDIT

IC 6-3.5-7-5, effective March 28, 2002. Provides that the combined CAGIT and CEDIT rates in Daviess, Marshall, Elkhart, and Union counties cannot exceed 1.5%.

IC 6-3.5-7-10.5, effective July 1, 2002. By July 2 of each year, the department shall notify each county of the balance in the county's CEDIT account and the required six month balance at the end of the preceding year.

IC 6-3.5-7-17.3, effective July 1, 2002. Provides that if the department, upon recommendation from the budget agency, determines that an excess balance exists in a county's account, the department may make a supplemental distribution.

IC 6-3.5-7-24, effective March 28, 2002. Allows Knox County to impose CEDIT at a rate of 0.25% to pay for a county jail.

DEPARTMENT ADMINISTRATION

IC 6-8.1-3-7.1, effective July 1, 2002. Requires the department to enter into an agreement with the county auditor of any unit that has adopted an innkeeper's tax, a food and beverage tax, or an admissions tax, to furnish annually the name and amount of money collected for each business subject to the respective tax.

IC 6-8.1-9-14, effective January 1, 2003. Allows the department to establish a centralized debt collection program within the department for use by state agencies to collect delinquent accounts. Gives the Commissioner

the authority to establish the form and manner for information to be submitted to the department. Allows the department to retain up to 15% of delinquent funds. The collection fee shall be added to the delinquent amount.

OTHER LOCAL TAXES

IC 6-9-2.5-6, -7, and -7.5, effective January 1, 2003. Increases the Vanderburgh innkeeper's tax from 5% to 6%. The additional 1% is to be used for operating expenses of the convention and visitors commission, and tourism capital improvement.

IC 6-9-7-7, effective July 1, 2002. Fifty percent (50%) of the Tippecanoe county innkeeper's tax is deposited into a special account, with 75% of those funds going to the Department of Natural Resources for development of projects in state parks on the Wabash River in Tippecanoe County. The remaining 25% will go to the community development corporation.

LOCAL GOVERNMENT

IC 36-7-13-10.7, effective March 28, 2002. Permits the city of Marion to add a business to its CRED district that had significant job losses during 2001. Creates a new formula for determining incremental sales and income tax financing for the business added to the district.

IC 36-7-26-1, -23, and -24, effective April 1, 2002. Provides that the city of South Bend can receive \$1,000,000 per year in sales tax increment financing. Prior law only permitted \$1,000,000 over the life of the district. Also, expands the uses of funds for the Community Revitalization Enhancement District (CRED) in South Bend.

IC 36-7-31.3-4, effective July 1, 2002. Provides that the food and beverage tax generated from a Professional Sports Development District in Allen County is not to be returned to the district.

IC 36-7-31.3-8, effective July 1, 2002. Expands the type of facilities that can be in a professional sports development district and qualify for funding.

■ HEA 1001ss PROVISIONS AFFECTING THE DEPARTMENT OF REVENUE (AS SIGNED ON JUNE 28, 2002, SPECIAL SESSION)

SECTION 3. IC 4-10-13-3 JANUARY 1, 2003. Eliminates reporting requirements in the annual report for information concerning the gross income tax.

SECTION 5. IC 4-30-18-2 JULY 1, 2002. Eliminates the prohibition against taxing lottery winnings for the adjusted gross income tax.

RIVERBOAT GAMING

SECTION 23. IC 4-33-12-6 JULY 1, 2002. Provides that excess riverboat admissions tax will be paid to the property tax replacement fund after base year distributions.

SECTION 24. IC 4-33-13-1 JULY 1, 2002. Increases the riverboat gaming tax from 20% of adjusted gross receipts to 22.5% for boats that do not opt for flexible scheduling.

SECTION 25. IC 4-33-13-1.5 JULY 1, 2002. If the riverboat institutes flexible scheduling the tax is 15% of the first \$25,000,000 of adjusted gross receipts received during the fiscal year, 20% if receipts are between \$25,000,000 and \$50,000,000, 25% if the receipts are between \$50,000,000 and \$75,000,000, 30% if the receipts are between \$75,000,000 and \$150,000,000, and 35% if the receipts are greater than \$150,000,000. The rate schedule does not begin until the flexible scheduling actually starts.

SECTION 13. IC 4-33-13-5 JULY 1, 2002. Establishes a revenue sharing account that will constitute the first \$33,000,000 received from the gaming tax. Revenue is to be distributed to cities, town, and counties that do not have a boat based on population. Provides that the increased gaming tax revenue will be deposited in the property tax replacement fund instead of the Build Indiana Fund.

UTILITY RECEIPTS TAX

SECTION 47. IC 6-2.3 JANUARY 1, 2003. The utility receipts tax is imposed at the rate of 1.4% of the taxable gross receipts of a utility. Gross receipts are defined as the value received for the retail sale of utility services. Pass through entities are subject to the utility receipts tax at the entity level. The services include: electrical energy, natural gas, water, steam, sewage, and telecommunications.

Gross Receipts – Gross receipts include:

1. Judgments or settlements to compensate a taxpayer for lost retail sales.
2. If receipts are not segregated, then all receipts are taxable.
3. Sales to a buyer that resells for use in hotels, mobile home parks, and marinas.
4. Sales to another of water or gas, if the other person bottles and resells the product.
5. Receipts received for installation, maintenance, repair, equipment or leasing services provided to commercial or domestic consumers.

Excluded Gross Receipts –

1. Taxes collected by the taxpayer imposed by the federal government, a state, or a political subdivision.
2. Wholesale sales to another generator or reseller of utilities.
3. Receipts from electric member cooperatives to the holding company are not included for the holding company.
4. Receipts of a joint agency from a member municipality for electrical energy that will be sold to retail customers.
5. Refundable deposits paid by a customer to the taxpayer.
6. Cable TV receipts.

Exemptions –

1. Sales to the U.S. Government
2. Sales involved in interstate commerce.
3. Sales of a conservancy district, water sewage or solid waste district.
4. Nonprofit Water Company, nonprofit company formed to provide combined water and sewage service.
5. County solid waste management district, a county on-site waste management district.
6. Sales by a taxpayer not regularly engaged in the trade or business of selling utility services.
7. Owners or operators of hotels, motels, campgrounds, mobile home parks, and marinas.

Deductions –

1. \$1,000 deduction per taxpayer.
2. Accrual basis taxpayers are entitled to a bad debt deduction in the same manner as the bad debt deduction in IC 6-2.5-6-9.
3. Depreciation deduction for resource recovery systems.
4. Reusable container receipts.
5. Gross receipts that are exempt from taxation under the Mobile Telecommunications Sourcing Act.
6. Retail sales of bottled water or gas to the extent that it was treated as a retail transaction under IC 6-2.3-3-6.

Provides for quarterly estimated payments, and payments by electronic funds transfer if the liability exceeds \$10,000. There is no estimated payment required if the annual liability is less than \$1,000.

Annual returns are due on the 15th day of the fourth month after the close of the taxpayer's taxable year. If a taxpayer does not file an annual utility receipts tax return, they may be required to file an affidavit that the taxpayer didn't receive more than \$1,000 of taxable gross receipts.

Corporate members of an affiliated group may file a consolidated return. An election to file consolidated must be made at the time of the first filing of the affiliated group. The department must grant permission before an affiliated group can change its method of filing.

Revenue from the tax shall be deposited in the state general fund.

SALES TAX

SECTION 48. IC 6-2.5-1-10 JANUARY 1, 2003. Defines a commercial printer and commercial printing for purposes of the sales tax.

SECTION 49. IC 6-2.5-2-2 DECEMBER 1, 2002. Establishes the sales tax break points for sales of less than \$1.09 and increases the sales tax from 5% to 6%.

SECTION 53. IC 6-2.5-5-21 JANUARY 1, 2003. Provides that sales of food by certain organizations are exempt from the sales tax if the group files an annual report to retain the exemption.

SECTION 55, 56, AND 57. IC 6-2.5-5-24; IC 6-2.5-5-25; IC 6-2.5-5-26. JANUARY 1, 2003. Provides sales tax exemptions that were in place before but only referenced exemptions contained in the gross income tax statute.

SECTION 61. IC 6-2.5-6-8 DECEMBER 1, 2002. Changes the break point for the income exclusion ratio from \$.10 to \$.09.

SECTION 62. IC 6-2.5-6-10 DECEMBER 1, 2002. Reduces the collection allowance from 1% to .83% for the retailer.

SECTION 65. IC 6-2.5-10-1 JANUARY 1, 2003. Changes the distribution of the sales tax. Deposit of sales tax collections will be as follows: 50% to the property tax replacement fund; 49.192% to the general fund; .635% to the public mass transit fund; .033% to the industrial rail service fund; and .14% to the commuter rail service fund.

ADJUSTED GROSS INCOME TAX

SECTION 67. IC 6-3-1-3.5 JANUARY 1, 2002 (RETROACTIVE). Defines adjusted gross income for domestic life insurance companies to be the same as federal taxable income as defined in Section 801 of the Internal Revenue Code adjusted as follows; add Section 170 deductions and add back state and local income taxes. Subtract exempt income that is exempt under statutes of the United States and income included in taxable income under Section 78 of the Internal Revenue Code.

Other insurance companies that are organized under Indiana law use the definition contained in Section 832 of the Internal Revenue Code with the same adjustments that are listed above.

SECTION 68. IC 6-3-1-10 JANUARY 1, 2003. Life insurance companies and other insurance companies are defined as a corporation for purposed of the adjusted gross income tax statute.

SECTION 70. IC 6-3-2-1 JANUARY 1, 2003. Increases the corporate adjusted gross income tax from 3.4% to 8.5%.

SECTION 71. IC 6-3-2-2 JANUARY 1, 2003. Provides that insurance companies are subject to a one-factor apportionment formula based on premiums written in Indiana divided by premiums written everywhere.

SECTION 73. IC 6-3-2-2.6 JANUARY 1, 2003. Provides that insurance companies subject to the adjusted gross income tax are allowed a net operating loss deduction even if the taxpayer was not subject to tax at the time of the loss.

SECTION 74. IC 6-3-2-2.8 JANUARY 1, 2003. Provides that foreign insurance companies are exempt from the adjusted gross income tax, and domestic insurance companies are exempt if they elect to pay the insurance premium tax.

SECTION 76. IC 6-3-2-3.5 JANUARY 1, 2003. Moves a reference for the exemption for public transportation fares from a reference in the gross income tax to specific language in the adjusted gross income tax statute.

SECTION 77. IC 6-3-2-6 JANUARY 1, 2003. Increases the renter's deduction from \$2,000 to \$2,500.

SECTION 78. IC 6-3-2-14 JULY 1, 2002. Provides that the first \$1,200 of prize money received from a winning lottery ticket is exempt from tax. The excess over \$1,200 is subject to tax.

SECTION 80. IC 6-3-4-4.1 JANUARY 1, 2003. Specifies estimated payment dates for the adjusted gross income tax, which were previously specified in the gross income tax statute. Provides that no estimated payment penalty will be imposed if the taxpayer has paid 20% of the final liability for the taxable year, or 25% of the final liability for the taxpayer's prior taxable year. This provision applies to the adjusted gross and utility receipts tax as a combined payment.

SECTION 81. IC 6-3-4-8 JANUARY 1, 2003. Provides that the department shall adopt rules to exempt an employer from withholding if the employee is eligible for the earned income credit under IC 6-3.1-21, and the employee requests an advance payment of the earned income tax credit.

SECTION 82. IC 6-3-4-8.2 JULY 1, 2002. Requires that riverboats withhold adjusted gross income tax on slot machine winnings that exceed \$1,200, or winnings valued at \$1,500 or more from a keno game. The withholding is required on the entire amount of winnings. Requires the riverboat to report and remit the amount withheld daily to the department.

Provides that withholding shall be deducted from a winning lottery ticket if the value of the winnings exceeds \$1,200. The amount withheld will be the tax on the excess over \$1,200.

SECTION 83. IC 6-3-7-3 JANUARY 1, 2003. Provides that 100% of the corporate adjusted gross income tax will be deposited in the general fund, instead of \$10,000,000 to the general fund and the remainder to the property tax replacement fund.

Provides that 86% of the individual income tax will be deposited in the state general fund, and 14% will be deposited in the property tax replacement fund.

TAX CREDITS

SECTION 87. IC 6-3.1-4-2 JANUARY 1, 2003. Increases the research expense credit from 5% to 10% of the qualified expenditures, and eliminates the apportionment of the credit, so that 100% of all research conducted in Indiana will be eligible for the credit. This SECTION applies to taxable years beginning after December 31, 2002.

SECTION 90. IC 6-3.1-4-6 JULY 1, 2002. Extends the research expense credit through December 31, 2004.

SECTION 114. IC 6-3.1-21-6 JANUARY 1, 2003. Provides that the earned income credit is to be equal to 6% of the federal earned income tax credit the taxpayer is eligible to receive.

SECTION 116. IC 6-3.1-21-10 JULY 1, 2002. Provides that the earned income tax credit expires on December 31, 2005.

SECTION 119. IC 6-3.1-24 JANUARY 1, 2003. Creates a Venture Capital Investment Tax Credit. Provides that a taxpayer that provides qualified investment capital to a qualified Indiana business is entitled to a credit. Requires the Department of Commerce to certify that the Indiana business is qualified to receive the investment based on six different criteria established in the statute. The Department of Commerce shall provide a copy of Commerce's certification to the investors for inclusion with their tax filing. Commerce may impose an application fee of \$200.

The maximum amount of credit is equal to the lesser of 20% of the qualified investment or \$500,000. The total amount of credits that may be allowed in a calendar year may not exceed \$10,000,000. The taxpayer must submit proof to the department that the taxpayer is eligible for the credit. The department shall keep track of all filings of credits being claimed and grant the credit in the chronological order that they are received. The credit can be carried forward but there is no carry back or refund of an unused credit.

The credit is limited to investments that occur before December 31, 2008.

SECTION 207 states that this chapter takes effect for taxable years beginning after December 31, 2003.

COUNTY ECONOMIC DEVELOPMENT INCOME TAX (CEDIT)

SECTION 121. IC 6-3.5-7-5 JANUARY 1, 2003. Provides that counties are permitted to impose an additional CEDIT rate to provide additional homestead credits to offset the increased property tax due to the property tax exemption for inventory.

GASOLINE TAX

SECTION 132. IC 6-6-1.1-201 JANUARY 1, 2003. Increases the gasoline tax from \$.15 to \$.18 per gallon.

SECTION 133. IC 6-6-1.1-801.5 JANUARY 1, 2003. Provides that the increased taxes shall be distributed as follows: \$.01 will be transferred to the highway road construction and improvement fund, \$.01 is deposited in the state highway fund, and \$.01 shall be distributed by the auditor of state to cities, towns and counties based on the formula for the motor vehicle highway fund distribution.

CIGARETTE TAX

SECTION 135. IC 6-7-1-12 JULY 1, 2002. Increases the cigarette tax to \$.555 per pack for cigarettes weighing less than three pounds per 1,000 cigarettes, and increases the tax to \$.73762 on cigarettes weighing more than three pounds per 1,000.

SECTION 136. IC 6-7-1-17 JULY 1, 2002. Decreases the discount that cigarette distributors receive for stamping the cigarettes. The current discount is 4%, and it is decreased to 1.2%. Provides that if a distributor has had a good credit standing with the state for the last five consecutive years, the amount of the bond required remains the same as before the increase in the cigarette tax took effect.

SECTION 137. IC 6-7-1-28.1 AUGUST 1, 2002. Changes the cigarette tax distribution: 6.6% goes to the cigarette tax fund, 0.94% goes to the mental health centers fund, 8.4% goes to the pension relief fund, and 83.97% goes to the general fund.

SECTION 138. IC 6-7-2-7 JULY 1, 2002. Increases the other tobacco products tax from 15% to 18% of the wholesale price.

SECTION 139. IC 6-7-2-13 JULY 1, 2002. Changes the collection allowance for the other tobacco products tax from 1% to .6%.

OTHER PROVISIONS

SECTION 187. IC 36-7-32 JANUARY 1, 2003. Creates Certified Technology Parks. Provides that a development commission or redevelopment commission must apply to the Department of Commerce for designation of all or part of a district as a certified technology park. Requires a redevelopment commission to send to the department a copy of the designation of the certified technology park, a copy of the agreement between the commission and the department of Commerce, and a listing of all the employers in the certified technology park. Provides incremental sales and income tax financing for the parks. Requires the department to annually calculate the incremental amounts that the parks are eligible to receive by October 1 for the preceding state fiscal year. The maximum amount of incremental financing for each park shall not exceed \$5,000,000 per park.

REPEALERS AND TRANSITIONAL LANGUAGE

SECTION 191. NON-CODE JANUARY 1, 2003. Repeals the gross income tax, the exemption of lottery winnings from taxation, repeals the credit for gross income tax paid to be applied against the adjusted gross income tax liability. Repeals the supplemental net income tax. Repeals the bank tax, the savings and loan tax, and the production credit association tax. Repeals the credit for property taxes paid on inventory.

SECTION 192. NON-CODE JULY 1, 2002. Provides that cigarette stamps paid for before July 1, 2002 and in the possession of a distributor may be used after June 30, 2002 if the full amount of cigarette tax has been paid to the department.

SECTION 195. NON-CODE DECEMBER 1, 2002. Provides transitional language for the imposition of the increased sales tax as it relates to utility billings. Only transactions for which the charges are collected upon original billings dated after December 31, 2002, shall be considered as having occurred after November 30, 2002.

SECTION 196. NON-CODE JULY 1, 2002. Provides that the department shall adopt initial rules and forms by December 1, 2002 for the utility receipts tax. Provides that emergency rule making authority may be used.

Provides transition language for the utility receipts tax for a fiscal year taxpayer. The taxpayer's first taxable year will be from January 1, 2003 until the end of their normal taxable year. The taxpayer will calculate the annual taxable income for the full taxable year, and then prorate the year to the period that occurs after December 31, 2002 until the end of the taxpayer's federal taxable year.

SECTION 197. NON-CODE JULY 1, 2002. Requires that fiscal year taxpayers subject to the supplemental net income tax will file a final return based on income tax due for the period beginning with the taxpayer's taxable year starting in 2002 and ending on December 31, 2002. The taxpayer is required to remit any estimated payments that were due to be paid before December 31, 2002.

SECTION 198. NON-CODE JANUARY 1, 2003. Provides that the repeal of the gross income tax only applies to taxable years that begin after December 31, 2002.

SECTION 199. NON-CODE JANUARY 1, 2003. Provides that fiscal year taxpayers subject to the gross income tax will file a final return based on gross income tax due from the start of the fiscal year through December 31, 2002.

SECTION 200. NON-CODE JULY 1, 2002. Provides that corporate fiscal year taxpayers subject to the adjusted gross income tax shall calculate the adjusted gross income tax liability based on the number of days that the income is subject to the 3.4% rate and the number of days that the income is subject to the 8.5% rate.

SECTION 201. NON-CODE JANUARY 1, 2003. Provides that the utility receipts tax applies to taxable years beginning after December 31, 2002.

SECTION 207. NON-CODE JULY 1, 2002. Provides that the venture capital tax credit applies to taxable years beginning after December 31, 2003.

TAXPAYER BILL OF RIGHTS

Public Law 332-1989

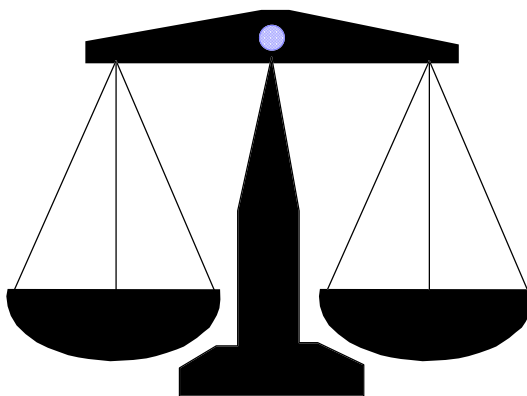
(Special Session)

Indiana Taxpayer Rights and Responsibilities

All Indiana taxpayers have certain rights and responsibilities that correspond to the Indiana tax laws. The Taxpayer Bill of Rights sets forth these rights and responsibilities for Indiana Taxpayers:

- I Quality taxpayer service
- II Taxpayer Advocate to help taxpayers in the preservation of their rights
- III Taxpayer education and information
- IV A fair collection process
- V Appointed hearing time and representation
- VI Demand Notices
- VII Warrants for collection of tax
- VIII Judgement liens against property
- I X Annual Public Hearing and Department Report
- X Taxpayer responsibilities

SIGNIFICANT COURT CASES



(JULY 1, 2001 THROUGH JUNE 30, 2002)

[Waste Management of Indiana, LLC v. Indiana Department of Revenue](#)

764 N.E.2d 318 (Ind. Tax, 2002)

Waste Management challenged the department's denial of a proportional claim for refund pursuant to IC 6-6-4.1-4(d) and 6-6-4.1-5(d) on Indiana Motor Carrier Fuel Tax and Motor Carrier Surcharge Tax paid by Waste Management on fuel consumed in Indiana for the operation of equipment mounted on its vehicles. The department argued that in *Bulkmatic II*, 691 N.E.2d 1371 (Ind. Tax Ct. 1998) and *Bulkmatic III*, 715 N.E.2d 26 (Ind. Tax Ct. 1999), the exemption was ruled invalid by the Tax Court's ruling that the statutory language limiting the exemption to fuel used "in Indiana" was unconstitutional. The Tax Court concluded that Waste Management was entitled to the proportional exemption according to the statute and that every code provision is severable absent an exception that would render the statute contrary to the Legislature's intent if read without the invalid features. ." The department has petitioned the Indiana Supreme Court for review of this matter; the Petition is pending as of the date of this writing.

[State of Indiana, Indiana Department of Revenue v. Dante Adams](#)

762 N.E.2d 728 (Ind. 2002)

Adams sought to have cocaine illegally seized during a criminal search suppressed from a Controlled Substance Excise Tax ("CSET") assessment proceeding of the department. The Indiana Supreme Court concluded that the exclusionary rule, pursuant to the Fourth Amendment of the U.S. Constitution, is intended to deter illegal searches or seizures and should not apply to CSET assessment proceedings. Applying the exclusionary rule to CSET assessment proceedings would not serve to deter illegal searches or seizures, since the primary concern of such searches and seizures is criminal prosecution. Although CSET has some quasi-criminal aspects, in that it taxes narcotics, it stems from the State's power to tax and not from the State's power to regulate. Further, applying the exclusionary rule to CSET proceedings would frustrate the State's power to tax by precluding probative evidence and frustrate expedited CSET proceedings by requiring complicated legal determinations.

[Chrysler Financial Co., LLC v. Indiana Department of State Revenue](#)

761 N.E.2d 909 (Ind. Tax, 2002)

Chrysler disputed the department's denial of Chrysler's assignee rights of a refund claim for state sales tax pursuant to Indiana's "Bad Debt" statute, IC 6-2.5-6-9. Chrysler's claim was based on the assignment of car financing installment contracts by dealers to Chrysler, which were later written off as uncollectible by Chrysler and on which Chrysler had paid the dealer the entire amount of the contract price, including sales tax paid by the dealer to the department. The Court ruled that since the Bad Debt statute did not specifically exclude the assignability of contract rights, statutory rights and causes of action, common law was applicable and therefore such rights are assignable and "the assignee stands in the shoes of the assignor." The department has petitioned the Indiana Supreme Court for review of this matter; the Petition is pending as of the date of this writing.

Interstate Warehousing, Inc. v. Indiana Department of State Revenue

764 N.E.2d 313 (Ind. Tax, 2002)

Interstate challenged the department's denial of Interstate's refund claim, pursuant to IC 6-2.5-5-5.1 (the consumption exemption), for sales tax paid on electricity purchased by Interstate and used for the operation of refrigeration equipment in providing refrigerated storage for its customers. The Court concluded that Interstate was entitled to the consumption exemption because Interstate consumed the electricity in the direct production of other tangible personal property when using the electricity to chill ammonia. The chilling of the ammonia placed it in a form substantially different from that in which it was acquired and thus created a new and marketable good. The Indiana Supreme Court granted the department's Petition for Review of this case; that review has not been completed as of this writing.

Max E. Anderson, d.b.a. M.X. Express v. Indiana Department of State Revenue

758 N.E.2d 597 (Ind. Tax, 2001)

M.X. Express challenged the denial of a refund by the department on Indiana's Motor Carrier Fuel Tax ("MCFT") paid on the proportion of fuel consumed on Indiana toll roads. M. X. Express asserted that the MCFT violated the Commerce Clause of the U.S. Constitution because the tax is not fairly related to the services provided by the State since, according to M.X. Express, none of the taxes collected are used on the toll roads. The Court concluded that the tax was assessed proportionately, based on miles driven in the State, and "the taxpayer is shouldering its fair share of supporting the State's provision of police and fire protection, the benefit of a trained work force, and the advantages of civilized society." The tax is compulsory and "entitles the taxpayer to receive nothing in return other than the rights of government which are enjoyed by all citizens alike." "By assessing the MCFT for the fuel that M.X. Express consumes on Indiana highways, the State is merely requiring M.X. Express to assume its fair share of the State tax burden."

State of Indiana ex rel. Indiana Department of Revenue v. Timothy L. Deaton and Marie E. Deaton

755 N.E.2d 568 (Ind., 2001)

The Deatons challenged the jurisdiction of a court to enforce a statutory judgment lien pursuant to IC 6-8.1-8-2(e) for income tax not paid by the Deatons. The Deatons asserted that the department must file a suit and obtain a judgment in court before such court has jurisdiction. Therefore, a statutory judgment lien did not give a court jurisdiction to enforce a final determination of the department. The Supreme Court ruled that unless and until a final determination is appealed to the Tax Court, the final determination is the equivalent of a judgment, and when the tax warrant that embodies that final determination is recorded as a judgment lien in the judgment record of a county court, the warrant becomes a judgment of that court, and such court acquires jurisdiction for the limited purpose of enforcing the judgment. IC 6-8.1-8-8 authorizes summary collection proceedings without further judicial action because once a tax warrant becomes a judgment lien the day for disputing the tax is over and the matter has progressed to the collection stage.

Hi-Way Dispatch, Inc. v. Indiana Department of State Revenue

756 N.E.2d 587 (Ind. Tax, 2001)

Hi-Way Dispatch disputed the department's ruling that fuel consumed during "idle time" was subject to Indiana Motor Fuel Tax, IC 6-6-4.1-4, which is imposed on the "consumption of motor fuel by a carrier in its operations" on the state's highways. Hi-Way Dispatch contended that only consumption of motor fuels used in "propulsion" of a qualified motor vehicle was subject to the tax pursuant to the International Fuel Tax Agreement (IFTA), Article III(A). Hi-Way Dispatch further disputed the department's denial of full credit for tax-paid on fuel purchases in jurisdictions that are not members of IFTA. The Court concluded that IFTA provides for the administration of the motor fuel taxes, while the Indiana statutes provide the scope of the tax and any related exemptions. As such, IFTA cannot provide an exemption that the Indiana statute does not provide. Therefore, the department properly concluded that "idle time" fuel consumption is not excludable from the Motor Fuel Tax. The Court also found that, because IFTA does not govern nonmember jurisdictions, the department was correct in looking to the Indiana statute to determine the credit for taxes paid in nonmember jurisdictions.

AREAS OF RECURRING TAXPAYER NONCOMPLIANCE

RETURNS PROCESSING CENTER

Following is a list of recurring errors the Electronic Funds Transfer staff observes. If these errors were corrected we would experience fewer "suspended" payments and improved payment posting as well as prevent the generation of proposed assessment notices to taxpayers.

- 1) Withholding and sales taxpayers failure to file quarterly recaps.
 - 2) Withholding and sales taxpayers filing monthly returns rather than quarterly recaps.
 - 3) Failure to adhere to Indiana's ACH credit addenda record requirements including:
 - a) Not using the correct 13-digit Indiana Taxpayer Identification Number (TID) in the addenda record, e.g. using the Federal ID number, or an incorrect form of the TID number.
 - b) Failure to provide accurate tax period end information in the addenda record.
 - c) Failure to include any information in the addenda record.
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COMPLIANCE DIVISION

AERONAUTICS SECTION

The Aeronautics Section mailed 5,062 aircraft registration renewals for the 2001 with 300 owners in delinquent status as of December 2001. This translates into a 94% renewal compliance rate.

Indiana Code 6-6-6.5-2 states that any Indiana resident who owns an aircraft must register the aircraft within thirty-one (31) days from the purchase date. Any nonresident who bases an aircraft in this state for more than sixty (60) days shall register the aircraft with the department no later than sixty (60) days after establishing a base in Indiana.

Corporate Dissolutions, Reinstatement Certificates of Clearance, Grant Clearances and Letters of Good Standing

This section has received 1,725 notices of corporate dissolution. Indiana Code 6-8.1-10-9 provides that any corporate officer or director becomes personally liable for all taxes, penalties, interest, and fees associated with the collection of liabilities for a period of one (1) year from the date the department is notified of the corporation's dissolution. The corporate officers or directors become personally liable because the dissolving corporation distributed corporate assets before all liabilities were satisfied. Corporate officers or directors may be absolved of any personal liability by obtaining a Certificate of Clearance from the department. The Certificate of Clearance certifies that all liabilities due the department have been satisfied.

Corporations that are administratively dissolved by the Secretary of State's office for noncompliance must obtain a Reinstatement Certificate of Clearance from the department verifying the corporation is in good standing before they can be reinstated with the Secretary of State. The department issued 1,166 Certificates of Clearance and denied or closed 185 requests due to outstanding issues.

Corporations in the process of obtaining financial loans or Department of Commerce grant or award approval will request a Letter of Good Standing. The department has issued 462 Letters of Good Standing and denied 199 requests due to missing returns or unpaid liabilities.

Neighborhood Assistance Program

The total Neighborhood Assistance credits allowed in a fiscal year (July 1 to June 30) can not exceed \$2.5 million. The Indiana Department of Commerce verifies donations made to qualified Neighborhood Assistance Organizations. The Indiana Department of Revenue tracks the donations from various business entities allow-

ing 50% of the allowable donation as a credit against gross income tax, adjusted gross income tax, or supplemental net income tax. The department has processed 3,926 tax credits for the fiscal year ending June 30, 2002.

BANKRUPTCY SECTION/RESPONSIBLE OFFICER SECTION

The bankruptcy section reviewed 4,331 Chapter 11, Chapter 7 Assets and Chapter 13 bankruptcy notices to determine if a claim needed to be filed based upon outstanding tax liabilities and/or non-filed tax returns.

This area also handled 11,608 incoming phone calls as well as 106,103 pieces of incoming correspondence. Our section received 3,979 previously unfiled tax returns due to bankruptcy proceedings.

A total of 41 Responsible Officer billings were generated for trust taxes not paid by their businesses.

INDIVIDUAL/WITHHOLDING/CORPORATIONS TAX SECTION

The Individual Income Tax Section's mission is to identify and pursue non-filers, as well as to verify the accuracy of filed returns by utilizing information from the Internal Revenue Service, various Indiana State agencies, other state taxing agencies, and anonymous informants. Our standard compliance projects and findings for Fiscal Year 2002 are as follows:

Federal Audits

Information is obtained from the Internal Revenue Service concerning agreed federal tax audit reports to the department. If taxpayers do not amend their Indiana Individual income tax return to report the Indiana adjustments resulting from the federal modifications detailed in the audit findings, a tax assessment is generated.

CP2000 Unreported Income

The department obtains data from the Internal Revenue Service regarding taxpayers who failed to report all taxable income. This could be income derived from wages, interest, dividends, or non-employee compensation. These types of income are reported on W-2's or Form 1099 information returns. An assessment is generated if the income was not reported on the original return, or an amended return. The project resulted in 7,117 taxpayer assessments.

Federal/State Cross check

The department obtains magnetic tape information from the Internal Revenue Service disclosing adjusted gross income and exemptions reported on the federal returns. This file is compared to the state reported adjusted gross and exemptions from our master file. Automatic billings are then generated for any state and county tax due on the differences. This Project resulted in 15,181 taxpayers being assessed.

Withholding Discrepancies

A comparison is made between taxpayers' annual WH-3 Forms with the state and county withholding payments (from Form WH-1) made during the year. If underpayments exist, taxpayers are assessed the differences. The project resulted in 326 taxpayers being assessed.

Individual Desk Audits

Individual desk examinations are performed, based on anonymous sources or submissions from other divisions within the department. The examination may consist of verifying income reported, credits/deductions taken, or the amount of refund requested. Individual desk audit resulted in 75 assessments.

Voluntary Compliance Program

Taxpayers who discover that they may have nexus with Indiana, but have not filed returns, frequently contact the department and request to enter into a Voluntary Compliance Agreement. These taxpayers often times were confused or were unaware of filing requirements for income tax and sales/use taxes in Indiana. Tax due is not forgiven, nor is interest abated.

NOT-FOR-PROFIT/CHARITY GAMING SECTION

This section is responsible for determining organizations' not-for-profit status and for licensing qualified not-for-profit organizations for bingo, festivals, raffles, door prizes and charity gaming nights. The licensing of manufacturers and distributors to sell tip boards, punchboards and pull-tabs is performed by this section.

A total of \$4,770,857.00 in fees was collected from the following licenses issued:

Annual Bingo	913
Charity Game Night	209
Door Prize	6
Festival	293
Raffle	600
Special Bingo	<u>128</u>
Total Licenses Issued	2,149

The following gaming license fees were collected:

Gaming License Fees	\$4,770,857.00
Manufacturers License	\$ 48,000.00
Distributors License	<u>\$ 118,000.00</u>
Total Fees Collected	\$4,936,857.00

During fiscal year 2002, the Charity Gaming Section conducted six (6) training seminars, which were held in Plymouth, Fort Wayne, Indianapolis, Terre Haute, Madison and Jasper. Approximately 317 representatives from not-for-profit organizations attended these seminars which covered the following topics:

- Not-for-Profit Application and Reports
- Sales Tax Registration and Forms
- Single Event Forms
- Renewal Applications
- Use of Charity Gaming Proceeds Leases
- Allowable Expenses
- Illegal Gaming Devices
- Fines and Penalties
- Protest Hearing Procedures

Future Charity Gaming Training & Education

The department will be sponsoring three (3) training seminars around the state during the next fiscal year. These seminars will be held in Indianapolis, Plymouth and Madison. The topics for these seminars will be determined at a later date.

UTILITY/REFUND/FUEL/SALES SECTION

Utility company requests for 6,734 exemptions of sales tax were reviewed and processed. Approximately 6,073 of the applicants qualified for a 100% exemption on their purchase of public utility services. These applicants were primarily government, not-for-profit organizations and those companies engaged in manufacturing whose use of the utility was predominately for an exempt purpose. Some 294 restaurants, industrial processors, grocers, etc. received less than total exemptions. These companies must pay the total sales tax charged by utility companies and then file an annual refund claim for the exempt percentage granted. Of the 368 applications denied, most were denied as a result of desk examination where the applicant failed to provide necessary information to support their refund request.

RECOMMENDATIONS FOR IMPROVING TAXPAYER COMPLIANCE AND DEPARTMENT ADMINISTRATION

■ Improvements in the Training of Department Employees, Pg. 26

■ TAXPAYERS' CONCERNS AND SUGGESTIONS TO DEPARTMENT

On June 18, 2001, the Indiana Department of Revenue conducted its annual public hearing in accordance with the Indiana Taxpayer's Bill of Rights. State Revenue Commissioner Kenneth L. Miller presided over the meeting. Taxpayers were provided the option of attending the hearing in person or submitting written comments.

Form Distribution

A VITA/TCE (Volunteer Income Tax Assistance/Tax Counseling for the Elderly) volunteer questioned the department's form distribution procedures and the lack of forms available during the past tax season. In addition, he noted that he had trouble reordering forms once his initial supplies were deleted. Form order procedures will be changed for the next tax season, which should help in resolving any form reorder problems that may have existed. In regard to the total number of tax booklets available fewer are being printed each year since more taxpayers are opting for electronic filing. Commissioner Miller noted that the department must strike a fine balance between demand for forms and cutting back on waste whereby too many are printed and thrown away at the end of the tax season.

Telephone Assistance

Two individuals mentioned the difficulty in getting through to the department for billing inquiries and general tax information. The department will review its telephone system in an attempt to allow taxpayers to remain in a queue longer instead of receiving a busy signal and not get through at all.

Form and Tax Booklet Layout

Another VITA volunteer questioned specific line items associated with the IT-40. In particular, he thought that Schedule 1 could be eliminated especially if some of those line items were on the IT-40, the IN-EIC (Earned Income Credit) should be eliminated from the booklet since so few use it, the instructions need to be more clear as to when a CT-40 (County Tax Schedule) is needed, TeleFile and IT-40EZ instructions should not be lumped together in one booklet and many of the tax deductions could be lumped into one miscellaneous category. The department notes that there is very little room on the two-sided IT-40 to allow for additional new lines, therefore, Schedule 1 will remain in place. The department has reviewed the use of the IN-EIC and will delete it from the tax booklet. It will be available from the department as a separate form. The department will review its instructions to see if more clarity can be attained with the CT-40 instructions. No changes are planned to make two separate TeleFile and EZ since both are aimed at the same audience and it only increases one tax booklet four pages to include both and provide taxpayers the option of filing in either manner.

Homeowner's Residential Property Tax Deduction

A taxpayer wrote to point out that a clarification is needed for rural taxpayers to accurately utilize the Homeowner's Residential Property Tax Deduction. He noted that the tax statement for those taxpayers "who live in the country often has a ditch assessment" and that the property tax receipt includes the ditch assessment together with the property tax in total dollars. The department referred the matter to the Department of Local Government Finance.

Pre-Printed Social Security Numbers

Noting that the first tax form in the IT-40 tax booklet contains the taxpayers' social security numbers, a taxpayer wrote:

"While inclusion of the identification numbers offers taxpayers and the department convenience, it also offers an opportunity to identify thieves. I would hope the Department of Revenue would consider either eliminating the printed identification numbers, following the example of the U.S. Internal Revenue Service, or secure the booklets in some manner so as to preserve privacy of the contents."

The department has reviewed this suggestion and has determined that in the future it will remove Social Security Numbers from tax booklets.

Rounding of Numbers on the Tax Form

A taxpayer wrote to suggest that the department should preprint "00" in all the cents columns or eliminate the cents columns altogether "since all numbers are to be rounded to whole dollars. The department does encourage rounding to the nearest dollar but cannot mandate it; therefore, the option to use actual cents is still provided.

"Brain Drain" Dilemma

"[W]hile generous Indiana state income tax allowances are made for such items as gambling (lottery winnings and riverboat building are clearly being encouraged by the tax laws), intellectual stimuli are lacking," wrote one Indiana taxpayer who finds their children leaving the State of Indiana. Of concern are tax laws, as they pertain to certain graduate-level students, which are encouraging the state's youth to take up residence in other states. In this particular incident, the daughter is pursuing an out-of-state degree and was given a fellowship "as an incentive to further her intellectual development." The fellowship was to be used for living expenses and was taxable at both the federal and state (Indiana) levels. According to the writer, "after taxes she was left with nearly poverty-level income." The daughter is now considering moving to Florida where there is no state income tax. In regard to taxing the fellowship monies, the State of Indiana mirrored federal requirements.

■ IMPROVEMENTS IN THE TRAINING OF DEPARTMENT EMPLOYEES

PERSONNEL DIVISION

Overview

During the period of July 1, 2001, through June 30, 2002, the Training Team presented 77 classes to a total of 2,079 participants.

Accomplishments Highlights

Sessions were offered in the following topics:

- ABCs of Discrimination for Employees
- Accounts Receivable (AR) 3
- AR 4
- Cultural Diversity
- Customer Service
- EASY Program/Stress Management
- Effective Writing
- Kids in a Drug-free Society
- Myers-Briggs Type Indicator/Interpersonal Dynamics
- New Employee Orientation 101
- New Employee Orientation 102
- New Employee Orientation for Intermittent Employees
- Outlook 2000 Basics
- Performance Appraisal
- Returns Processing System (RPS) Advanced
- RPS Basics
- RPS Inquiry
- RPS Intermediate
- RPS Special Needs
- Sexual Harassment Prevention for Employees
- Sexual Harassment Prevention for Supervisors
- Spanish Basics
- Violence in the Workplace for Employees
- Violence in the Workplace for Supervisors

The Statewide Training Initiative prioritized the goals and objectives that had been developed in the last year. Work groups were formed from the newly-revamped State Training and Development Alliance (ST & DA); the groups were in the process of developing action plans for the immediate goals and objectives when work was put on hold due to a reorganization within the State Personnel Department and due to budget concerns.

The department's Employee Handbook was updated and revised. This is the handbook new employee's receive on their first day on the job.

Current Project Highlights

Classes under development or in revision as of the end of the annual review period:

- Conflict Mode Basics
- Introduction to Taxes
- Sexual Harassment Prevention Refresher
- Supervisory Training Series Systems Training

All documentation for all Systems Training components was being reviewed and revised as of the close of the year. Another important project is an agency-wide needs assessment for Systems Training. Once the needs assessment is completed, the data will be used to develop needs-driven classes specific to section job duties.

INDIANA TAX DESCRIPTIONS AND RECEIPTS

All amounts are in thousands. Percent (%) change reflects increase from FY01 to FY02, unless otherwise indicated.

Aircraft License Excise Tax

Excise tax, due at the time of registration, is determined by weight, age and type of aircraft. All excise tax is distributed to the county where the aircraft is usually located when not in use.

FY93	—	FY97	\$ 377.6	FY01	\$ 513.8
FY94	\$ 413.2	FY98	\$ 381.8	FY02	\$ 548.9
FY95	\$ 395.6	FY99	\$ 392.9	CHANGE	6.8%
FY96	\$ 404.4	FY00	\$ 430.0		

Alcoholic Beverage Tax

Per gallon rates are based on the wholesale purchase of the following: beer, \$.115; Liquor-wine (21% alcohol or more), \$2.68; wine (less than 21% alcohol), \$0.47; mixed beverages (14% or less), \$0.47

FY93	\$ 33,224.5	FY97	\$ 33,942.4	FY01	\$ 36,597.8
FY94	\$ 33,974.9	FY98	\$ 33,087.8	FY02	\$ 37,458.3
FY95	\$ 33,590.2	FY99	\$ 35,148.9	CHANGE	2.4%
FY96	\$ 33,847.8	FY00	\$ 36,240.5		

Auto Rental Excise Tax

Based on the gross retail income from the rental of a vehicle weighing less than 11,000 pounds, for less than a 30-day period at a rate of 4%.

FY93	\$ 5,008.4	FY97	\$ 7,836.8	FY01	\$ 9,846.8
FY94	\$ 5,403.0	FY98	\$ 8,047.7	FY02	\$ 9,126.7
FY95	\$ 6,282.9	FY99	\$ 8,914.0	CHANGE	-7.3%
FY96	\$ 6,981.3	FY00	\$ 8,101.9		

Charity Gaming Excise Tax

Tax based on the sale of pull tabs, punchboards and tip boards to qualified organizations licensed for charity gaming at a rate of 10% of the wholesale price. Remitted by the licensed distributor or manufacturer (not the organization).

FY93	\$ 581.0	FY97	\$ 1,194.3	FY01	\$ 1,521.0
FY94	\$ 780.5	FY98	\$ 1,222.7	FY02	\$ 1,382.5
FY95	\$ 967.7	FY99	\$ 1,313.1	CHANGE	-9.1%
FY96	\$ 1,008.1	FY00	\$ 1,211.1		

Cigarette/Other Tobacco Tax

Levied against cartons or packs of cigarettes and cigarette papers, wrappers and tubes at the following rates: pack of 20 cigarettes, \$0.155; pack of 25 cigarettes, \$0.19375; other tobacco products, 15% of wholesale price.

FY93	\$ 110,278.4	FY97	\$ 128,420.3	FY01	\$ 120,827.4
FY94	\$ 113,380.3	FY98	\$ 127,969.1	FY02	\$ 123,214.8
FY95	\$ 123,025.6	FY99	\$ 127,634.1	CHANGE	2.0%
FY96	\$ 123,720.2	FY00	\$ 125,151.5		

Controlled Substance Excise Tax

Imposes a tax on illegally delivered, manufactured or possessed controlled substances. (Prescription pharmaceuticals are exempt.) Tax based on the weight and schedule of substance. Rates vary from \$3.50 to \$40.00 per gram. Once paid, a taxpayer who can remain anonymous is given a receipt for the tax which is valid for a specific time period. The payment of this tax does not legalize the controlled substance or the activity associated with it.

FY93	\$ 326.0	FY97	\$ 192.9	FY01	\$ 86.5
FY94	\$ 260.4	FY98	\$ 101.2	FY02	\$ 44.4
FY95	\$ 291.4	FY99	\$ 55.5	CHANGE	-48.7%
FY96	\$ 110.4	FY00	\$ 60.2		

Corporate Income Taxes

Includes gross, adjusted gross and supplemental net income taxes.

FY93	\$ 669,403.8	FY97	\$ 924,048.3	FY01	\$ 842,546.3
FY94	\$ 866,840.5	FY98	\$ 950,488.6	FY02	\$ 687,877.6
FY95	\$ 896,846.2	FY99	\$ 1,006,572.4	CHANGE	-18.4%
FY96	\$ 911,725.7	FY00	\$ 950,323.9		

County Adjusted Gross Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt either the County Adjusted Gross Income Tax or the County Option Income Tax, but not both.)

FY93	\$ 194,984.4	FY97	\$ 243,561.6	FY01	\$ 308,062.2
FY94	\$ 236,400.0	FY98	\$ 254,264.0	FY02	\$ 343,479.4
FY95	\$ 228,824.4	FY99	\$ 265,759.0	CHANGE	11.5%
FY96	\$ 236,047.2	FY00	\$ 284,537.8		

County Economic Development Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary.

FY93	\$ 38,241.6	FY97	\$ 80,456.4	FY01	\$ 140,547.2
FY94	\$ 58,321.0	FY98	\$ 97,879.2	FY02	\$ 160,225.3
FY95	\$ 64,222.8	FY99	\$ 112,551.9	CHANGE	14.0%
FY96	\$ 74,388.0	FY00	\$ 121,817.0		

County Innkeepers Tax

Tax determined locally at a rate not to exceed 5% of the gross income derived from lodging income. Tax may be collected either by the department or locally through the county treasurer's office.

FY93	\$ 13,121.4	FY97	\$ 15,600.7	FY01	\$ 24,073.7
FY94	\$ 12,671.5	FY98	\$ 18,962.8	FY02	\$ 22,586.8
FY95	\$ 14,248.6	FY99	\$ 20,251.1	CHANGE	-6.2%
FY96	\$ 14,973.1	FY00	\$ 21,077.4		

County Option Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt the County Option Income Tax or the County Adjusted Gross Income Tax, but not both.)

FY93	\$ 223,934.4	FY97	\$ 314,942.0	FY01	\$ 437,437.3
FY94	\$ 245,808.1	FY98	\$ 344,646.5	FY02	\$ 497,555.7
FY95	\$ 275,462.7	FY99	\$ 368,343.2	CHANGE	13.7%
FY96	\$ 285,327.6	FY00	\$ 394,089.4		

Estate Tax

Based on the difference between the State Death Tax Credit allowed at the federal level and the amount paid in state Inheritance Tax.

FY93	\$11,054.0	FY97	\$ 8,886.0	FY01	\$ 28,936.1
FY94	\$ 9,709.1	FY98	\$ 11,241.3	FY02	\$ 17,979.7
FY95	\$ 7,168.7	FY99	\$ 24,700.4	CHANGE	-37.9%
FY96	\$ 4,383.9	FY00	\$ 21,022.0		

Financial Institutions Tax

Based on the federal adjusted gross income at a rate of 8.5% for businesses which are engaged in extending credit, leasing (when it is the economic equivalent of extending credit) or credit card operations.

FY93	\$ 100,425.6	FY97	\$ 100,682.9	FY01	\$ 55,594.3
FY94	\$ 108,077.2	FY98	\$ 95,967.3	FY02	\$ 63,644.4
FY95	\$ 100,742.9	FY99	\$ 81,883.8	CHANGE	14.5%
FY96	\$ 122,142.0	FY00	\$ 79,365.8		

Food and Beverage Tax

Tax determined locally for purchases of food and beverages at a rate of 1% of retail sales price.

FY93	\$ 18,947.8	FY97	\$ 22,239.9	FY01	\$ 26,438.9
FY94	\$ 20,670.1	FY98	\$ 23,683.5	FY02	\$ 27,859.6
FY95	\$ 20,452.6	FY99	\$ 23,574.1	CHANGE	5.4%
FY96	\$ 21,341.0	FY00	\$ 26,021.0		

Gasoline Tax

Per gallon rate of \$0.15 for all invoiced gallons of gasoline collected by the licensed distributor and added to the selling price.

FY93	\$ 406,508.5	FY97	\$ 443,869.2	FY01	\$ 493,684.2
FY94	\$ 420,237.5	FY98	\$ 455,569.6	FY02	\$ 480,808.9
FY95	\$ 430,807.7	FY99	\$ 466,427.9	CHANGE	-2.6%
FY96	\$ 437,096.3	FY00	\$ 464,152.8		

Hazardous Waste Disposal Tax

Based on the amount of hazardous waste (as defined by statute) placed in a disposal facility or by means of underground injection at a rate of \$11.50 per ton.

FY93	\$ 2,512.0	FY97	\$ 2,390.1	FY01	\$ 1,542.5
FY94	\$ 2,733.3	FY98	\$ 2,603.0	FY02	\$ 1,304.5
FY95	\$ 2,634.8	FY99	\$ 1,744.7	CHANGE	-15.4%
FY96	\$ 2,575.5	FY00	\$ 1,770.1		

Individual Adjusted Gross Income Tax

Based on the federal adjusted gross income with numerous adjustments for individual residents, partners, stockholders in Subchapter S Corporations, trusts, estates and nonresidents with Indiana income sources at a rate of 3.4%.

FY93	\$ 2,412,471.9	FY97	\$ 3,197,117.8	FY01	\$ 3,779,805.4
FY94	\$ 2,541,895.1	FY98	\$ 3,433,445.9	FY02	\$ 3,540,819.1
FY95	\$ 2,767,743.1	FY99	\$ 3,699,316.6	CHANGE	-6.3%
FY96	\$ 2,966,265.7	FY00	\$ 3,753,339.5		

Inheritance Tax

Based on the taxpayer class (transferee's relationship to deceased); property's taxable value; residency status; and situs of real and tangible property and intangible property.

FY93	\$ 91,146.7	FY97	\$ 106,470.1	FY01	\$ 134,748.2
FY94	\$ 88,604.6	FY98	\$ 113,141.7	FY02	\$ 123,905.6
FY95	\$ 98,886.3	FY99	\$ 124,011.8	CHANGE	-8.0%
FY96	\$ 93,767.2	FY00	\$ 119,198.1		

Marion County Admissions Tax

Specific to the RCA Dome, Victory Field and Conseco Fieldhouse in Indianapolis for any sporting event at a rate of 5% of the admission price.

FY93	\$ 635.0	FY97	\$ 966.3	FY01	\$ 4,527.7
FY94	\$ 607.1	FY98	\$ 931.4	FY02	\$ 4,247.0
FY95	\$ 713.0	FY99	\$ 1,209.9	CHANGE	-6.2%
FY96	\$ 860.3	FY00	\$ 4,567.5		

Marion County Supplemental Auto Rental Excise Tax

Based on the gross retail income from the rental of passenger motor vehicles and trucks in Marion County for less than a 30-day period at a rate of 2%. Revenue from the tax is paid to the Capital Improvement Board of Managers.

FY93	—	FY97	—	FY01	\$ 1,883.7
FY94	—	FY98	\$ 1,330.1	FY02	\$ 1,950.4
FY95	—	FY99	\$ 1,667.8	CHANGE	3.5%
FY96	—	FY00	\$ 1,658.7		

Motor Carrier Fuel Tax

Per gallon rate of \$0.16 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY93	\$ 15,138.0	FY97	\$ 7,431.2	FY01	\$ 3,727.0
FY94	\$ 13,721.2	FY98	\$ 9,869.4	FY02	\$ 5,068.7
FY95	\$ 11,597.2	FY99	\$ 7,039.4	CHANGE	36.0%
FY96	\$ 9,605.5	FY00	\$ 5,745.2		

Motor Carrier Surcharge Tax

Per gallon rate of \$0.11 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY93	\$ 64,483.5	FY97	\$ 61,220.0	FY01	\$ 90,891.2
FY94	\$ 60,561.8	FY98	\$ 93,552.6	FY02	\$ 79,466.6
FY95	\$ 78,437.4	FY99	\$ 90,232.4	CHANGE	-12.6%
FY96	\$ 67,380.2	FY00	\$ 76,747.4		

Motor Vehicle Excise Tax

Specific compliance program authorized by statute aimed at locating vehicles owned by Indiana residents and registered illegally out of state, thus avoiding State Vehicle Excise Tax. Based on the age and class of vehicle, plus penalty and interest for the time period vehicle is illegally registered. (Except for this program, Motor Vehicle Excise Tax is otherwise collected by the Bureau of Motor Vehicles.)

FY93	\$ 722.3	FY97	\$ 732.1	FY01	\$ 20.4
FY94	\$ 923.8	FY98	\$ 468.6	FY02	\$ 14.1
FY95	\$ 631.4	FY99	\$ 281.4	CHANGE	-30.9%
FY96	\$ 832.1	FY00	\$ 122.1		

Pari-mutuel Admission Tax

Imposed at \$0.20 for each person who pays an admission charge to a racetrack grounds or satellite facility. (The following amounts have been verified by the Indiana Horse Racing Commission.)

FY93	—	FY97	\$ 34.8	FY01	\$ 18.3
FY94	—	FY98	\$ 29.6	FY02	\$ 13.9
FY95	\$ 74.9	FY99	\$ 26.0	CHANGE	-24.0%
FY96	\$ 62.7	FY00	\$ 21.4		

Pari-mutuel Wagering Tax

A 2% levy is imposed on the total amount of money wagered on line races and simulcasts conducted **at a permit holder's racetrack**. The tax is 2.5% of the total amount of money wagered on simulcasts from **satellite facilities**. (The following amounts have been verified by the Indiana Horse Racing Commission.)

FY93	—	FY97	\$ 3,450.2	FY01	\$ 3,534.3
FY94	—	FY98	\$ 3,499.1	FY02	\$ 3,537.4
FY95	\$ 1,397.7	FY99	\$ 3,648.5	CHANGE	.1%
FY96	\$ 3,211.9	FY00	\$ 3,751.7		

Petroleum Severance Tax

Levied against producers or owners of crude oil or natural gas and imposed at the time these products are removed from the ground at a rate equal to the greater of either 1% of the petroleum value, or \$0.03 per 1,000 cubic feet for natural gas and \$0.24 per barrel of oil.

FY93	\$ 694.7	FY97	\$ 614.9	FY01	\$ 565.3
FY94	\$ 696.4	FY98	\$ 642.5	FY02	\$ 579.8
FY95	\$ 653.2	FY99	\$ 506.3	CHANGE	2.6%
FY96	\$ 574.0	FY00	\$ 467.0		

Public Utility Tax (Railroad Car Companies/Railroads)

Based each year on assessments by the State Board of Tax Commissioners on the indefinite-situs distributable property of a railroad company that provides service within a commuter transportation district.

FY93	\$ 3,944.7	FY97	\$ 5,077.9	FY01	\$ 8,586.6
FY94	\$ 4,267.1	FY98	\$ 5,080.2	FY02	\$ 5,020.5
FY95	\$ 4,440.6	FY99	\$ 5,786.7	CHANGE	-41.5%
FY96	\$ 4,894.7	FY00	\$ 5,996.7		

Riverboat Admissions Tax

Specific to any licensed riverboat on Indiana waterways at a rate of \$3.00 per person admitted. Collection of this tax began in December, 1995.

FY93	—	FY97	\$ 56,262.5	FY01	\$ 118,630.0
FY94	—	FY98	\$ 90,921.4	FY02	\$ 127,769.1
FY95	—	FY99	\$ 110,745.4	CHANGE	7.7%
FY96	\$ 4,597.7	FY00	\$ 116,565.6		

Riverboat Wagering Tax

A tax of 20% of a licensed riverboat's adjusted gross receipts: total wagers, less payouts, less uncollected gaming receivables. Collection of this tax began in December, 1995.

FY93	—	FY97	\$ 146,084.1	FY01	\$ 349,092.0
FY94	—	FY98	\$ 231,890.1	FY02	\$ 381,814.2
FY95	—	FY99	\$ 295,181.4	CHANGE	9.4%
FY96	\$ 13,354.7	FY00	\$ 328,200.8		

Sales and Use Tax

A 5% tax on purchases of tangible personal property, public utility service and some rental transactions, which is collected at the retail level (also includes gasoline, which is collected at the wholesale level).

FY93	\$ 2,340,876.4	FY97	\$ 3,145,959.5	FY01	\$ 3,723,138.6
FY94	\$ 2,600,667.8	FY98	\$ 3,278,755.6	FY02	\$ 3,798,489.0
FY95	\$ 2,810,403.8	FY99	\$ 3,414,847.5	CHANGE	2.0%
FY96	\$ 2,965,275.9	FY00	\$ 3,687,291.7		

Special Fuel Tax

A license tax of \$0.16 per gallon imposed on all special fuel sold or used in producing or generating power for propelling motor vehicles.

FY93	\$ 108,162.2	FY97	\$ 147,552.8	FY01	\$ 151,335.7
FY94	\$ 125,911.3	FY98	\$ 151,245.0	FY02	\$ 170,308.4
FY95	\$ 124,399.8	FY99	\$ 161,779.4	CHANGE	12.5%
FY96	\$ 143,727.0	FY00	\$ 186,794.0		

MISCELLANEOUS FEES:

Aircraft Registration Fee

All Indiana aircraft are required to be registered with the Aeronautics Section of the Compliance Division where an annual \$10 registration/transfer fee is collected. An additional fee of \$20 or 20% (whichever is greater) of the unpaid excise tax is charged on all late registrations. There is also an annual aircraft dealers fee of \$25.

FY93	—	FY97	\$ 68.4	FY01	\$ 118.9
FY94	\$ 71.7	FY98	\$ 70.2	FY02	\$ 94.5
FY95	\$ 70.1	FY99	\$ 65.1	CHANGE	-20.5%
FY96	\$ 68.0	FY00	\$ 79.6		

Charity Gaming Licensing Fee

Licensing fee for qualified organizations is \$25 for the first license. Second license for the same charity gaming activity is based on gross receipts of previous event. Annual license for distributors is \$2,000. Annual license for manufacturers is \$3,000.

FY93	\$ 1,582.1	FY97	\$ 3,997.2	FY01	\$ 4,303.4
FY94	\$ 2,557.5	FY98	\$ 3,950.1	FY02	\$ 4,282.5
FY95	\$ 3,264.7	FY99	\$ 4,264.6	CHANGE	-.5%
FY96	\$ 3,635.1	FY00	\$ 4,328.0		

Employment Agency Licensing Fee

A person, firm or corporation opening, operating or maintaining an employment agency must pay an annual \$150 fee for each license.

FY94	\$ 35.2	FY98	\$ 53.1	FY01	\$ 54.5
FY95	\$ 40.2	FY99	\$ 51.3	FY02	\$ 57.9
FY96	\$ 42.2	FY00	\$ 51.6	CHANGE	6.2%
FY93	\$ 33.8	FY97	\$ 37.7		

Hazardous Chemical Fee

An annual fee is imposed on a facility which must submit to the state an emergency and hazardous chemical inventory form. Fees are \$50, \$100 or \$200, depending on the volume of hazardous chemicals present at the facility during the year.

FY93	\$ 644.8	FY97	\$ 650.5	FY01	\$ 511.3
FY94	\$ 655.8	FY98	\$ 623.1	FY02	\$ 573.4
FY95	\$ 653.8	FY99	\$ 576.4	CHANGE	12.1%
FY96	\$ 652.2	FY00	\$ 546.2		

International Registration Plan (IRP) Licensing Fee

Licensing fee for motor carriers based on miles driven in specific jurisdictions. (Formerly administered by the Bureau of Motor Vehicles.)

FY93	—	FY97	\$ 74,300.4	FY01	\$ 76,728.7
FY94	—	FY98	\$ 71,577.9	FY02	\$ 80,293.7
FY95	—	FY99	\$ 75,941.9	CHANGE	4.6%
FY96	\$ 67,140.5	FY00	\$ 89,320.1		

Oversize /Overweight Permit Fee

Various categories of permits for motor carriers that are issued for different periods of time, based upon a vehicle's specific dimension and /or size and the travel activity. Fees can range from \$10.00 to over \$400.00. (Formerly administered by the Indiana Department of Transportation.)

FY93	—	FY97	\$ 9,844.3	FY01	\$12,358.6
FY94	—	FY98	\$11,252.7	FY02	\$11,849.5
FY95	—	FY99	\$11,528.3	CHANGE	-4.1%
FY96	\$ 3,701.8	FY00	\$12,782.3		

Solid Waste Management Fee

Imposed on the disposal or incineration of solid waste in a final disposal facility within the state at a rate of \$.50 per ton of waste generated in the state. For solid waste generated outside the state, the rate is the greater of \$.50 per ton or the cost per ton of disposing the solid waste, including the tipping fees and state and local government fees, in the final disposal facility that is closest to the area in which the solid waste was generated, minus the fee actually charged for the disposal or incineration of the solid waste by the owner or operator of the final disposal facility.

FY93	\$ 3,896.1	FY97	\$ 4,494.4	FY01	\$ 4,318.0
FY94	\$ 3,421.0	FY98	\$ 4,623.0	FY02	\$ 4,320.3
FY95	\$ 3,789.6	FY99	\$ 4,612.7	CHANGE	.1%
FY96	\$ 3,850.6	FY00	\$ 4,516.8		

Underground Storage Tank Fee

An annual fee of \$200 per tank is imposed on owners of underground storage tanks. In addition, there is an annual registration fee of \$90 for each underground petroleum storage tank; and \$45 for each underground storage tank containing regulated substances other than petroleum. (**Beginning in July 1, 1997, the oil inspection fees increased from \$.0008 cents per gallon to \$.008 cents per gallon.*)

FY93	\$ 7,000.5	FY97	\$ 8,481.2	FY01	\$ 32,467.5
FY94	\$ 7,564.4	FY98	\$ 28,758.5*	FY02	\$ 24,306.6
FY95	\$ 8,344.3	FY99	\$ 26,409.5	CHANGE	-25.1%
FY96	\$ 6,580.6	FY00	\$ 27,709.5		

Waste Tire Management Fee

A \$0.25 tire fee is assessed on each new tire sold at retail and each new tire mounted on a vehicle at the time a vehicle is sold. Imposed on tires for self-propelled motor vehicles only.

FY93	—	FY97	\$ 1,333.2	FY01	\$ 911.8
FY94	\$ 869.2	FY98	\$ 1,253.6	FY02	\$ 613.8
FY95	\$ 1,304.1	FY99	\$ 1,963.8	CHANGE	-32.7%
FY96	\$ 1,266.7	FY00	\$ 3,203.6		

AUDIT DIVISION STATISTICAL STUDY

The following information is based on 100% of the audits completed, taxpayers assisted and special projects conducted during Fiscal Year 2002, and addresses the requirements set forth by IC 6-8.1-14-4(2).

See Page 39 for an Index of exhibits and charts included.

- Gross Income Tax Violations, Pg. 37
- Sales/Use Tax Violations, Pg. 37
- Corporate Adjusted Gross Income Tax Violations, Pg. 38
- Amounts of Tax Assessed, Pg. 38
- Industry/Business Most Frequently in Violation, Pg. 39
- Special Tax Violations, Pg. 39
- Miscellaneous Code Violations, Pg. 40
- Number of Years in Audit Period, Pg. 40
- Use of Professional Tax Preparation Assistance, Pg. 40
- Filing of Appropriate Tax Returns, Pg. 40

■ TAXPAYERS SERVED IN DISTRICT OFFICES

Taxpayer assistance is available in all district offices. Each office has a taxpayer assistance supervisor and assistant taxpayer assistance supervisor who perform taxpayer service functions as well as other office support responsibilities.

The "Taxpayer Assistance Report" (Exhibit A) provides the number of taxpayers assisted (in person and by telephone) and the amount of money collected and assessed in each office by the taxpayer assistance program. Exhibit A reveals that during Fiscal Year 2002 district offices assisted 164,295 taxpayers in person and 206,195 taxpayers through telephone contact. Total number of taxpayers served by the district offices was 370,490. The district office in Columbus served 27,070 taxpayers in person, the highest number of any district office. The Lafayette District Office served 23,421 taxpayers in person, the second highest total.

The Merrillville District Office served 28,995 taxpayers by telephone while the Lafayette District Office served 22,975 taxpayers by telephone. This was the highest number of telephone contacts among the district offices, representing 14% and 11% respectively. The Columbus District Office served a total of 47,715 taxpayers by telephone and walk-in assistance while Lafayette served 46,396 taxpayers by telephone and walk-in assistance.

"Taxpayer Assistance/Special Project Statistics" (Exhibit B) provides the number of hours devoted by field auditors in the district offices to assist taxpayers and conduct special projects. The exhibit reveals that 11,231 auditor hours were channeled in this direction.

■ SPECIAL PROJECTS

The Audit Division pursued three special projects during the 2002 Fiscal Year.

Project Comply 2002 commenced at the conclusion of Project Comply 2001 and was conducted statewide. These audits identified candidates that were usually small and would normally not meet the criteria for a regular audit examination. The results of Project Comply 2002 are:

Audits Completed	836
Assessments	\$1,728,371
Refunds	\$ 109,389

The Prepaid Telephone Card project was also conducted statewide. Effective July 1, 1998 the sale of prepaid telephone cards became a retail transaction subject to sales tax. To ascertain compliance, auditors visited 2,567 locations. The results of this project are:

Number of Non-Compliant Locations	527
Sales Tax Assessed/Collected	\$267,907

A Truck Stop Survey was also conducted during this fiscal year. The purpose of this project was to survey various distributors and review the records of selected independent truck stops to ensure that special fuel tax was being paid on the sale of diesel fuel. No compliance issues were discovered.

■ GROSS INCOME TAX VIOLATIONS

The most frequently violated gross income tax rule is 45 IAC 1.1-2-5. This rule defines taxability of gross receipts from services. Violations (39) of this rule accounted for 11.82% of all violations of the gross income tax rules in the statistics. This was also the most frequently violated rule in the previous two studies, accounting for 16.03% in 2001 and 14.50% in 2000.

The second most frequently violated gross income tax rule is 45 IAC 1.1-3-3. This rule defines the interstate commerce exemption as applied to gross receipts tax. Rule 3-3 was inappropriately applied according to regulations affording taxpayers more exclusions from gross receipts. 45 IAC 1.1-3-3 produced 35 (10.61%) gross income tax rule violations. This rule was the second most frequently violated gross income tax rule in the 2001 study (8.75%) and the 2000 study (10.32%).

Ranking third with 30 (9.09%) infractions of the gross income tax rule violations is Rule 45 IAC 1.1-2-2. This rule defines taxable low rate gross income of retail and wholesale sales, display advertising, dry cleaning and laundry service, rental of water softening equipment, rental of rooms, lodging, booths and similar accommodations and commercial printing. Rule 45 IAC 1.1-2-4 defines taxable high rate income of utilities, display advertising, sale of real estate, rentals and extension of credit and was the third most violated rule in the 2001 report with 7.87%. The third most frequently violated rule for 2000 was 45 IAC 1.1-1-10 at 8.85%. This rule defines receipts to mean the entire gross income or gross receipts received by a taxpayer, actually or constructively, without any deduction of any kind or nature. In 1999, the third most violated rule was 45 IAC 1-1-213 at 5.94% which requires withholding from all payments to a nonresident contractor.

■ SALES/USE TAX VIOLATIONS

The most frequently violated sales and use tax rule is 45 IAC 2.2-3-20. Rule 3-20 states that if the seller of tangible personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the department. This rule produced 605 violations (12.72%) of the sales and use tax infractions. In 2001, 45 IAC 2.2-6-8, which discusses the determination of a retail merchant's liability for a report period, was violated 14.92% or 614 times.

The second most frequently violated sales and use tax rule is 45 IAC 2.2-5-8. Rule 5-8 clarifies sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools, and equipment

used in direct production and other activities. This rule accounted for 535 infractions or 11.25% of sales and use tax statute violations. 45 IAC 2.2-3-20 (explained above) was the second most violated rule in the 2001, 2000 and 1999 studies accounting for 500, 664 and 615 violations respectively.

The third most violated rule for the 2002 fiscal year is 45 IAC 2.2-3-4. Rule 3-4 imposes use tax on “tangible personal property, purchased in Indiana, or elsewhere in a retail transaction, and stored, used or otherwise consumed in Indiana . . . unless the Indiana state gross retail tax (sales tax) has been collected at the point of purchase.” Failure of taxpayers to comply with this rule accounts for 518 or 10.89% of the sales and use tax infractions. This rule ranked third in 2001 with 481 violations but ranked first in violations in 2000 and 1999. Fiscal year 2000 showed 694 violations and 1999 showed 658 violations.

■ CORPORATE ADJUSTED GROSS INCOME TAX VIOLATIONS

Corporate taxpayers violated adjusted gross income Rule 45 IAC 3.1-1-8 more than any other rule. This rule states that taxable income as defined in the Internal Revenue Code is modified in several ways to arrive at Indiana adjusted gross income. Violations (94) of this rule accounted for 12.21% of the total violations. Rule 1-8 was also the most violated rule in 2001 with 119 or 13.52% of total infractions. The 2000 and 1999 report revealed Rule 1-97 ranked first for adjusted gross income infractions with a 22.00% and 21.78% violation rate.

Rule 45 IAC 3.1-1-9 was the second most frequently violated rule under this study. This rule deals with the adoption of modifications as defined in the Internal Revenue Code. More specifically, it allows a net operation loss as a deduction in computing Indiana Adjusted Gross Income (IRS Code Section 172). These violations (79) account for 10.26% of the total violations for 2002. 45 IAC 3.1-1-97 ranked second in the 2001 study with 115 violations accounting for 13.07% of the total violations.

The third most frequently violated rule is 45 IAC 3.1-1-97. Rule 1-97 addresses the returns and reports that must be filed by adjusted gross tax withholding agents. Violations (72) of this rule accounted for 9.35% of the violations of adjusted gross income tax rules. 45 IAC 3.1-1-9 (noted above) was the third most violated rule in the 2001 study accounting for 90 or 10.22% of the violations of adjusted gross income tax rules. The 2000 and 1999 violations of 45 IAC 3.1-1-9 also ranked third with 8.62% and 8.19% respectively.

■ AMOUNTS OF TAX ASSESSED

Exhibits C, D and E display the amount of assessments (refunds) and violations of the gross income tax, sales tax and adjusted gross income tax administrative rules, respectively. “Total assessments” for any tax type represent gross assessments less amounts refunded.

The amount assessed or refunded for each of the most frequent violations and the percentage of the amount to total net assessments are presented below:

Gross Income Tax—Exhibit C:

	<u>Amount Assessed</u>	<u>Percentage of All Assessments</u>
45 IAC 1.1-2-5	\$3,356,813	12.19%
45 IAC 1.1-3-3	\$8,148,159	29.58%
45 IAC 1.1-2-2	\$4,534,187	16.46%

Sales/Use Tax—Exhibit D:

	<u>Amount Assessed</u>	<u>Percentage of All Assessments</u>
45 IAC 2.2-3-20	\$2,027,614	11.44%
45 IAC 2.2-5-8	\$6,871,170	38.78%
45 IAC 2.2-3-4	\$3,105,696	17.53%

Corporate Adjusted Gross Income Tax—Exhibit E:

	<u>Amount Assessed</u>	<u>Percentage of All Assessments</u>
45 IAC 3.1-1-8	\$ 6,262,911	31.10%
45 IAC 3.1-1-9	(\$ 4,454,763)	(22.12)%
45 IAC 3.1-1-97	\$ 417,075	2.07%

■ INDUSTRY/BUSINESS/MOST FREQUENTLY IN VIOLATION

Gross Income Tax

For the tenth consecutive time, taxpayers engaged in manufacturing most frequently violated the gross income tax rules. This group committed 82 violations or 24.85% of the total violations. The gross income tax rule most frequently violated by this group of taxpayers was 45 IAC 1.1-3-3. This rule defines the exemption of gross receipts derived from business conducted in interstate commerce.

The second largest number of gross income tax violations was committed by taxpayers providing information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services. This group committed 66 infractions or 20.00% of the total violations for 2002. The most frequently violated rule of this group was 45 IAC 1.1-3-3. This group had 20.99% of total violations in the 2001 study. The service industry ranked second in the 1999 study. Wholesalers and retailers were the second most frequent violators of these rules in the 1998 and 2000 studies.

Sales and Use Tax

For the 2002 reporting period, repair, personal services and other services are the industries with the most infractions. They accounted for 1,055 violations or 22.18% of the total sales and use tax violations. The most frequently violated rule by these taxpayers was 45 IAC 2.2-3-20, which deals with remitting use tax on transactions where the seller doesn't collect the sales tax.

Manufacturing businesses had the second most frequency of violations of the sales and use tax rules. There were 788 violations committed by this group representing 16.57% of the total violations. The rule most frequently violated by this group was 45 IAC 2.2-5-8, which clarifies taxable and nontaxable sales of machinery, tools and equipment used in direct production.

Adjusted Gross Income Tax

Repair, personal service and other service providers with 218 infractions, were the most frequent violators of adjusted gross income tax rules. This figure represents 28.31% of the total adjusted gross income tax violations. 45 IAC 3.1-1-1, which defines adjusted gross income for individuals in relationship to Section 62 of the Internal Revenue Code, accounted for the most infractions in this class.

The information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services industries were the second most frequent violators of the adjusted gross income tax rules. They committed 165 infractions or 21.43% of the adjusted gross income tax violations. 45 IAC 3.1-1-97 was the most violated rule by these industries. Rule 1-97 specifies the returns and reports that must be filed by withholding agents for adjusted gross income tax purposes.

■ SPECIAL TAX VIOLATIONS

Exhibit G provides the number of special tax rule violations and the amount of special tax assessments and refunds.

Article VIII (citation R800 on exhibit) of the International Fuel Tax Agreement (IFTA) was the most frequently violated special tax item in the study. It specifies the taxable event is the consumption of motor fuels in the

propulsion of qualified motor vehicles, except fuel consumed that is exempt from taxation by a jurisdiction. All motor fuel acquired that is normally subject to consumption tax is taxable unless proof to the contrary is provided by the licensee. Article VIII was violated 197 times and yielded \$483,585 in net assessments for the State of Indiana. This represents 26.80% of total violations.

The exhibit also reveals that Article X (citation R1000 on exhibit) of the International Fuel Tax Agreement (IFTA) was the second most frequently violated section of the special tax statutes. This Article discusses how taxpayers can obtain credit for tax previously paid on purchases of fuel at the pump. It also lists the records needed to substantiate the refund request. This article was violated 183 times accounting for 24.90% of the total violations. These violations resulted in a net refund of (\$134,402).

The taxpayer group most frequently in violation of the special tax statutes and IFTA Articles was the wholesale, retail and transportation industries. This group committed 351 violations accounting for 47.76% of the total infractions. Article VIII of the International Fuel Tax Agreement was most frequently violated by the wholesale, retail and transportation industries.

■ MISCELLANEOUS CODE VIOLATIONS

Exhibit F provides the number of violations and assessment amounts of the following:

Financial Institutions Tax
Tax Administration
Food and Beverage Tax
Innkeeper's Tax

A review of this exhibit reveals that IC 6-8.1-4-2 was violated 24 (14.46%) times in the 2002 study. This code section addresses access to accounting records of a business and the use of sampling techniques for auditing purposes. These violations yielded (\$48,053) in net refunds. 45 IAC 15-9-2 was the most violated rule in the 2001 study. Rule 9-2 defines the statute of limitations as it applies to refunds.

The 20 violations of 45 IAC 15-9-2 yielded a total of \$292,236 in assessments. Rule 9-2 is defined above. IC 6-8.1-4-2 also defined above, was the second most violated citation in the 2001.

■ NUMBER OF YEARS IN THE AUDIT PERIOD

The audit period consistently averages three years.

■ USE OF PROFESSIONAL TAX PREPARATION ASSISTANCE

The services of professional preparers were used in the preparation of 75.5% of the corporate income tax returns and 11% of the sales tax returns. These findings remain consistent with the previous years' reports.

■ FILING OF APPROPRIATE TAX RETURNS

Rule 45 IAC 3.1-1-92 (Exhibit E) requires qualifying corporations to make estimated tax payments. Taxpayers in violation of this rule either failed to file estimated income tax returns or failed to remit the appropriate amount of tax. For the fiscal year ending in 2002, the study indicates 12 violations of this rule, resulting in assessments in the amount of \$825,255 and refunds totaling (\$662,533).

Indiana Code 6-8.1-10-2.1 (Exhibit F) revealed no violations during the 2002 study period. This section specifies the penalty to be imposed if a taxpayer fails to file an appropriate return or pay the full amount of tax due. Violations of this section in the 2001, 2000 and 1999 studies were zero while the 1998 report showed one violation.

EXHIBITS

AUDIT DIVISION -- FY02		
Taxpayer Assistance Report District Offices	Exhibit A	Page 42
Taxpayers Served in District Offices		Page 42
Field Auditors Taxpayer Assistance/Special Projects	Exhibit B	Page 43
Standard Industrial Codes		Page 43
Dollars Assessed in 45 IAC Citations by Industrial Code Gross Income Tax Audits	Exhibit C	Pages 44
Gross Income Tax Violations by Industry Group Gross Income Tax Dollars Assessed by Industry Group		Page 45 Page 45
Dollars Assessed in 45 IAC Citations by Industrial Code Sales and Use Tax Audits	Exhibit D	Pages 46-47
Sales and Use Tax Violations by Industry Group Sales and Use Tax Dollars Assessed by Industry Group		Page 48 Page 48
Dollars Assessed in 45 IAC Citations by Industrial Code Adjusted Gross Income Tax Audits	Exhibit E	Pages 49-50
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Dollars Assessed in Code and Article Citations by Industrial Code Special Tax Audits	Exhibit G	Page 54
Special Tax Violations by Industry Group Special Tax Dollars Assessed by Industry Group		Page 55 Page 55
<u>OTHER</u>		
2001 Individual Returns Processed		Page 56

Exhibit A
Taxpayer Assistance Report - Fiscal Year 2002
Audit Division District Offices

	South Bend	Fort Wayne	Lafayette	Kokomo	Muncie	Terre Haute	Bloomington	Columbus	Clarksville	Evansville	Merrillville	Totals
Walk-in Assistance	9,414	9,227	23,421	16,685	6,193	11,803	13,851	27,070	19,841	14,021	12,769	164,295
Telephone Assistance	12,738	19,301	22,975	16,315	16,776	19,265	15,491	20,645	18,949	14,745	28,995	206,195
Totals	22,152	28,528	46,396	33,000	22,969	31,068	29,342	47,715	38,790	28,766	41,764	370,490
Collected/Assessed	\$2,646,694	\$1,589,968	\$2,064,757	\$6,293,275	\$2,870,545	\$1,940,278	\$3,719,159	\$3,074,506	\$4,556,456	\$2,410,997	\$6,697,452	\$37,864,087

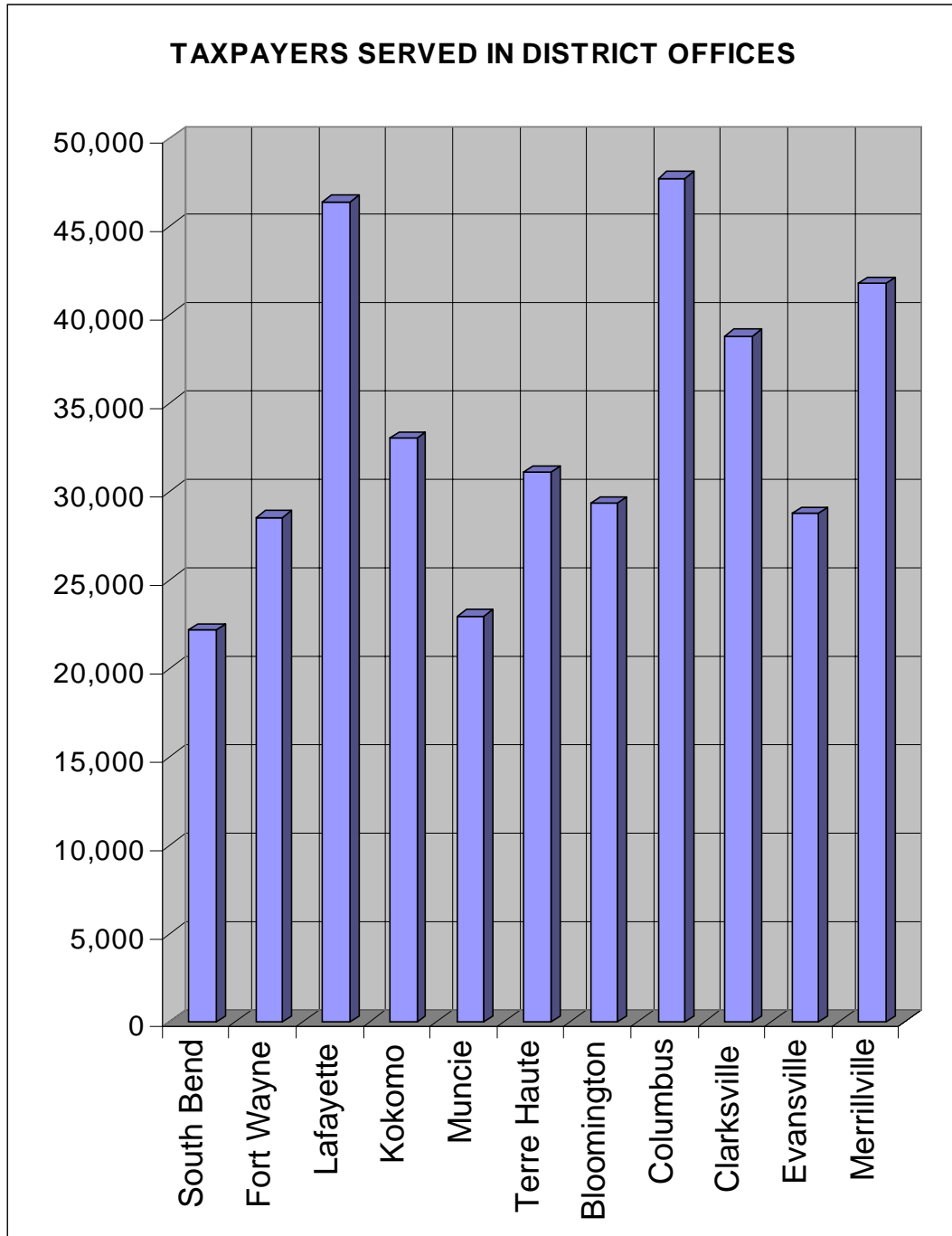


Exhibit B
FIELD AUDITORS TAXPAYER ASSISTANCE/SPECIAL PROJECTS

		Total Hours
Region I	South Bend, Fort Wayne, Merrillville	3,055
Region II	Lafayette, Kokomo, Muncie	1,631
Region III*	Indianapolis	1,193
Region IV	Terre Haute, Bloomington, Columbus, Clarksville, Evansville	3,216
Region V	Out of State	0
Region VI	Special Tax Auditors	<u>2,136</u>
	Total	11,231

*Represents special project only. Taxpayer assistance provided by Taxpayer Services Division

This field auditor information was gathered using information from regional reports indicating hours charged to Administrative Special Projects and Administrative Taxpayer Services.

STANDARD INDUSTRIAL CODES

The Standard Industrial Codes (SIC) used in the Audit Division reports and exhibits are based on the North American Industry Classification System (NAICS). Refer to the following text to explain the industry classification numbering system.

<u>Class</u>	<u>Explanation</u>
1	Agricultural; Forestry
2	Mining; Oil and Gas Extraction; Construction
3	Manufacturing
4	Wholesale; Retail; Transportation
5	Information; Publishing; Telecommunications; Finance; Rental; Insurance; Real Estate; Leasing; Professional Services
6	Education; Health Services
7	Arts; Entertainment; Recreation; Food Service; Accommodations
8	Repair; Personal Services; Other Services
9	Public Administration

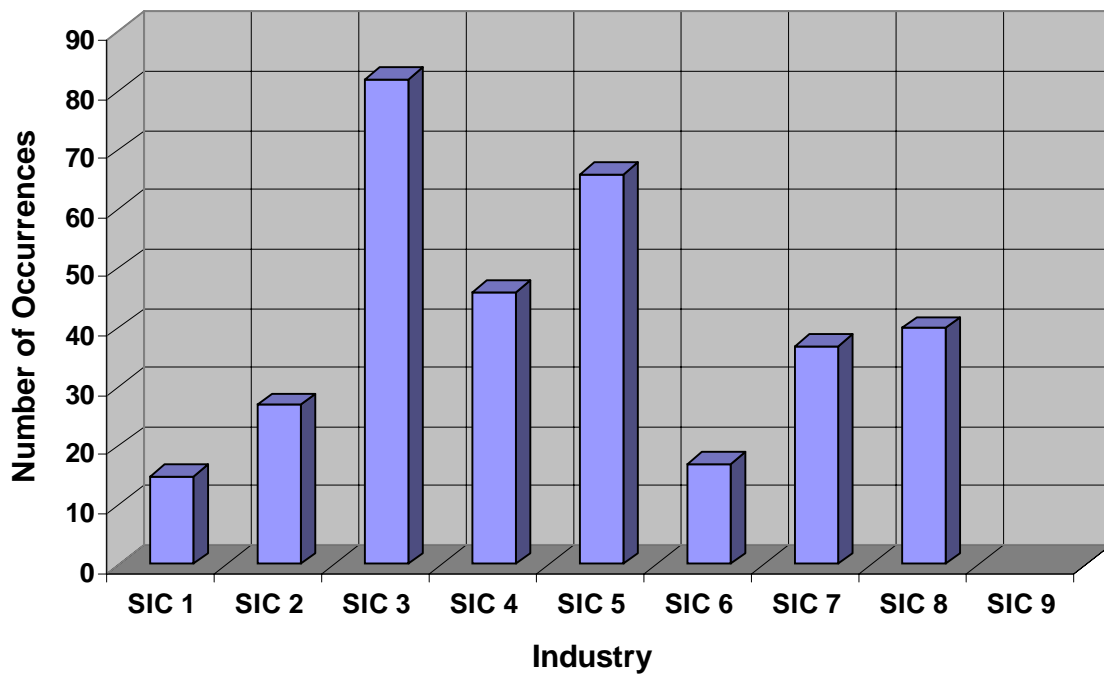
Exhibit C

Dollars Assessed in IAC Citations by Industrial Code Gross Income Tax Audits

Sum of Results	SIC *								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 1.1-1-10	1,092	424,305	5,860		12,375		26,991	15,887	486,510
45 IAC 1.1-1-11			(30,775)		467,418				436,643
45 IAC 1.1-1-12								425,170	425,170
45 IAC 1.1-1-13					(34,655)				(34,655)
45 IAC 1.1-1-14						157,047			157,047
45 IAC 1.1-1-15		2,015,290						16,262	2,031,552
45 IAC 1.1-1-18		(469,487)	(1,568)						(471,055)
45 IAC 1.1-1-19		11,885							11,885
45 IAC 1.1-1-2							180,032		180,032
45 IAC 1.1-1-20	(137,436)		(63,429)	922	14,665				(185,278)
45 IAC 1.1-1-22	3,007	1,560			188,033		(5,318)	4,212	191,494
45 IAC 1.1-1-23	3,183	(202,556)	3,899						(195,474)
45 IAC 1.1-1-24		5,044	1,864	1,691	14,408	2,121		2,424	27,552
45 IAC 1.1-1-3	(49)	(5,129)	(19,248)	145,085	14,519	50			135,228
45 IAC 1.1-1-4			95,071	435	225,551				321,057
45 IAC 1.1-1-5		6,108	74,440		11,820				92,368
45 IAC 1.1-1-6		1,686		2,483	493,077				497,246
45 IAC 1.1-1-8		70,957	4,323						75,280
45 IAC 1.1-1-9	11	88		67					166
45 IAC 1.1-2-1		16,751			(50,400)		(100)	225,408	191,659
45 IAC 1.1-2-10	10,380		19,512	51,471	8,272		(135)	62,582	152,082
45 IAC 1.1-2-12	2,102	(24,818)	658,946		187,558			2,783,973	3,607,761
45 IAC 1.1-2-13				(40,369)	9,009	(18,376)	(14,500)	40,000	(24,236)
45 IAC 1.1-2-17			387,657	1,077					388,734
45 IAC 1.1-2-19		18,891		66,594	(60)				85,425
45 IAC 1.1-2-2		9,705	3,453,335	1,281,325	(51,847)		(138,643)	(19,688)	4,534,187
45 IAC 1.1-2-20			585						585
45 IAC 1.1-2-4			200,361	18,453	45,864	195,783	6,985	234,326	701,772
45 IAC 1.1-2-5	109,707		638,906	93,555	53,522	20,744	340,998	2,099,381	3,356,813
45 IAC 1.1-2-6				62,727					62,727
45 IAC 1.1-2-8	300	109	5,891	5,053	58		1,018		12,429
45 IAC 1.1-3-1						(1,670)			(1,670)
45 IAC 1.1-3-11			(4,119)	(19,106)	(420,595)		(2,105)	(36,599)	(482,524)
45 IAC 1.1-3-12	6,203								6,203
45 IAC 1.1-3-13								(855)	(855)
45 IAC 1.1-3-14		(83,164)					13,225		(69,939)
45 IAC 1.1-3-3		12,891	9,236,403	(129,048)	44,694		(1,400)	(1,015,381)	8,148,159
45 IAC 1.1-3-5				(12,364)		1,747			(10,617)
45 IAC 1.1-3-6				126	18,651				18,777
45 IAC 1.1-3-7								300	300
45 IAC 1.1-3-9							31,177	12,898	44,075
45 IAC 1.1-4-1			(17)				(5,000)		(5,017)
45 IAC 1.1-4-2	(177)		108						(69)
45 IAC 1.1-4-3			68						68
45 IAC 1.1-4-5			(7,163)			(48)			(7,211)
45 IAC 1.1-5-1			(25,008)						(25,008)
45 IAC 1.1-5-2				9,716					9,716
45 IAC 1.1-5-8			1,511						1,511
45 IAC 1.1-6-11								2,791,543	2,791,543
45 IAC 1.1-6-2			(53,298)	76,375	(466)	(12,719)			9,892
45 IAC 1.1-6-3		905							905
45 IAC 1.1-6-4			(721)						(721)
45 IAC 1.1-6-5			(134,139)						(134,139)
Grand Total	(1,677)	1,811,021	14,449,255	1,616,268	1,251,471	344,679	433,225	7,641,843	27,546,085

* See accompanying text for detail of SIC categories

Gross Income Tax Violations by Industry Group



Gross Income Tax Dollars Assessed by Industry Group

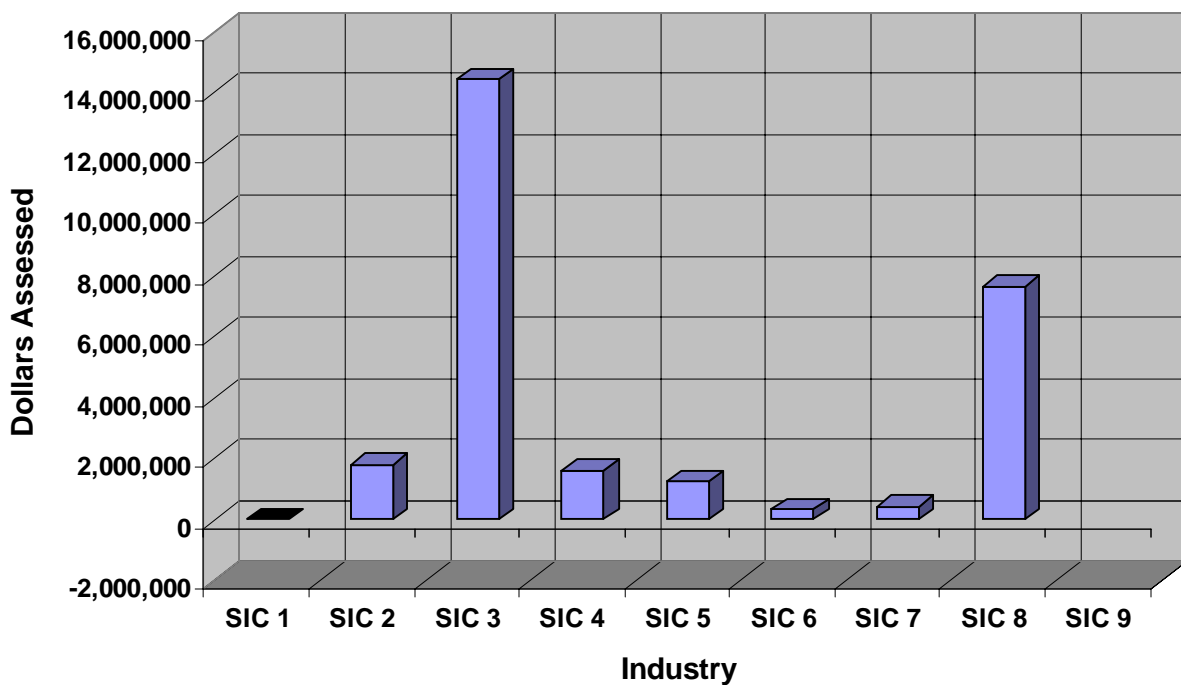


Exhibit D

Dollars Assessed in 45 IAC Citations by Industrial Code Sales and Use Tax Audits

Sum of Results	SIC *									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 2.2-1-1	6,922	1,105	49,352	18,280	50,563		46,965	3,259		176,446
45 IAC 2.2-2-1		6,284	64,084		49,772		1,142	93,054		214,336
45 IAC 2.2-2-2	70,874	6,614	32,222	75,327	72,316		48,336	695,507	46,881	1,048,077
45 IAC 2.2-2-3				5,739						5,739
45 IAC 2.2-2-4		(1,375)								(1,375)
45 IAC 2.2-3-10		(844)						(10,427)		(11,271)
45 IAC 2.2-3-11			237			155			3,921	4,313
45 IAC 2.2-3-12	131,590	143,055	47,975	252	1,969	174	45,635	98,383		469,033
45 IAC 2.2-3-13		6,859	359	1,464	13,324	2,832	85,946	(30,213)		80,571
45 IAC 2.2-3-14		(10,957)		(1,013)			(278)			(12,248)
45 IAC 2.2-3-15	133	5,346	38,127	31,206	22,516	(46,671)	5,162	(61,392)		(5,573)
45 IAC 2.2-3-18				15,559	12,398		4,927	9,894		42,778
45 IAC 2.2-3-2			368							368
45 IAC 2.2-3-20	14,573	64,380	110,745	300,755	271,265	50,351	748,279	466,597	669	2,027,614
45 IAC 2.2-3-21			1,950	16,049	16,830			2,803		37,632
45 IAC 2.2-3-22	287				5,906					6,193
45 IAC 2.2-3-24			4,805	8,602			13,030			26,437
45 IAC 2.2-3-25	30,000				67,629		302	8,403		106,334
45 IAC 2.2-3-26					1,966					1,966
45 IAC 2.2-3-27	935	8,469	57	498	4,150	3,270	2,614	8,072		28,065
45 IAC 2.2-3-3								(10,894)		(10,894)
45 IAC 2.2-3-4	12,549	148,189	832,488	199,260	1,159,596	11,836	124,525	616,950	303	3,105,696
45 IAC 2.2-3-5		9,483	2,535	130,528	36,679		39	47,274		226,538
45 IAC 2.2-3-6							2,467,840			2,467,840
45 IAC 2.2-3-7		18,924	6				4,843			23,773
45 IAC 2.2-3-8	5,727	8,886	19,448	846	3,151	1,590	40,845	82,206		162,699
45 IAC 2.2-3-9	53,168	3,074	(52,389)	60,815	24,422	2,440	400	2,321		94,251
45 IAC 2.2-4-1	7,028	1,047	62,462	72,783	258,046	1,877	15,476	115,519		534,238
45 IAC 2.2-4-11		64	6,193	1,797						8,054
45 IAC 2.2-4-12			147					6,250		6,397
45 IAC 2.2-4-13	(15,268)	(41,402)	(426,437)	2,343	(6,140)	(1,726)	(2,356)	(291,054)	(7,021)	(789,061)
45 IAC 2.2-4-14					5,638					5,638
45 IAC 2.2-4-2	7,644	888	(7,329)	8,378	8,528	33,550	2,701	18,104		72,464
45 IAC 2.2-4-20							23,580			23,580
45 IAC 2.2-4-21	(4,582)	12,510	2,848		8,248	146		179,976		199,146
45 IAC 2.2-4-22	37,472	143,271		3,024	11,603		3,602	1,995		200,967
45 IAC 2.2-4-23		3,219	271		(235)			(3,409)		(154)
45 IAC 2.2-4-24			1,076							1,076
45 IAC 2.2-4-25	421	377			652			39,381		40,831
45 IAC 2.2-4-26	26,918	166,692	(329,993)	474	46,099		1,736	54,687		(33,387)
45 IAC 2.2-4-27	(14,981)	74,778	55,765	77,754	69,456	12,700	109,646	88,724		473,842
45 IAC 2.2-4-28					106		1,441,060			1,441,166
45 IAC 2.2-4-3		564		44,698	98	(12)	(461)	3,247		48,134
45 IAC 2.2-4-30							106,587			106,587
45 IAC 2.2-4-31					138,652					138,652
45 IAC 2.2-4-33				21,112	61,062			3,120		85,294
45 IAC 2.2-4-34					5,714					5,714
45 IAC 2.2-4-35	(163)						(10)			(173)
45 IAC 2.2-4-4				(232)				(5,353)		(5,585)
45 IAC 2.2-4-6				6,525						6,525
45 IAC 2.2-4-7			8,000	832	56					8,888
45 IAC 2.2-4-8			45	43,024	40,392	21,254	375,074	22,884		502,673
45 IAC 2.2-4-9			13	53	5		1,271	5		1,347
45 IAC 2.2-5-1								9,068		9,068
45 IAC 2.2-5-10		154	16,392		17,145			6,837		40,528

* See accompanying text for detail of SIC categories.

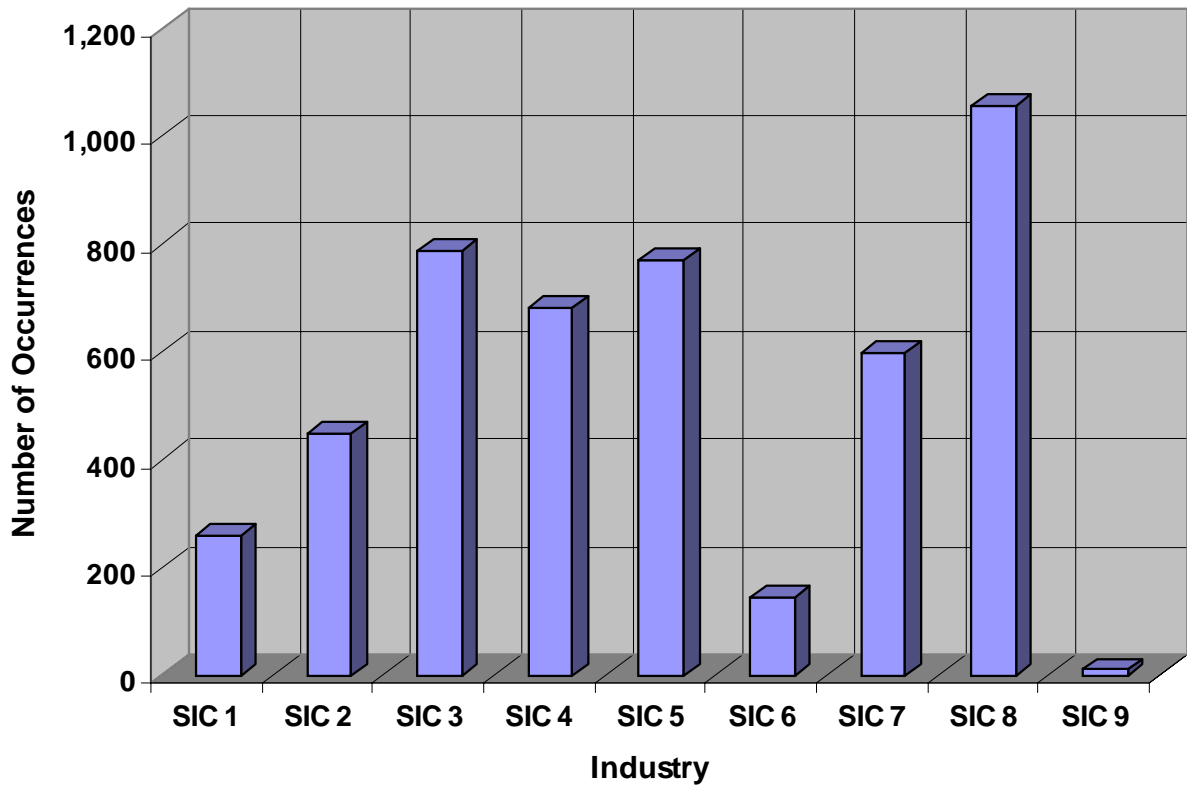
Exhibit D -- Cont.

Dollars Assessed in 45 IAC Citations by Industrial Code Sales and Use Tax Audits

45 IAC 2.2-5-11			45				(252)			(207)
45 IAC 2.2-5-12	(7,631)	(796)	13,483	8,361	12,251		(7,767)	41,882		59,783
45 IAC 2.2-5-13	(103)			(101)	(665)			1,580		711
45 IAC 2.2-5-14	(747)	14,475	(20,212)	(1,430)	(4,191)		(383)	(5,027)		(17,515)
45 IAC 2.2-5-15	(12,739)	(24,390)	(1,968)	(17,157)	(23,062)	(602)	(10,424)	(55,532)		(145,874)
45 IAC 2.2-5-16	(900)	(5,979)	134,392	(1,990)	(28,735)		(3,757)	7,243		100,274
45 IAC 2.2-5-19		1,064								1,064
45 IAC 2.2-5-20							1,987	(33,962)		(31,975)
45 IAC 2.2-5-21					1,739			975		2,714
45 IAC 2.2-5-25					2					2
45 IAC 2.2-5-26	1,232	3,932	9,484	2,510	8,808	6,151	5,116	10,614		47,847
45 IAC 2.2-5-27				15		2,817		1,235		4,067
45 IAC 2.2-5-28			137	590		156		(199)		684
45 IAC 2.2-5-3	17,431	3,008		283				781		21,503
45 IAC 2.2-5-33						(40)				(40)
45 IAC 2.2-5-35					(27)			4,053	(17)	4,009
45 IAC 2.2-5-36						40,203		13,872		54,075
45 IAC 2.2-5-38			(164)		(8,648)			7		(8,805)
45 IAC 2.2-5-39			(311)		5,716		(386,219)	(4,746)		(385,560)
45 IAC 2.2-5-4	6,475	8,458		9,518	3,475		8,730	1,954		38,610
45 IAC 2.2-5-40		57	40	4,175		1,815	873	4,341		11,301
45 IAC 2.2-5-42	516		4,301	1,386	1,040		18	1,222		8,483
45 IAC 2.2-5-43			76	5,866	48,702	1,280	4,457	(15,717)		44,664
45 IAC 2.2-5-45		76	299				789	98		1,262
45 IAC 2.2-5-48								(155)		(155)
45 IAC 2.2-5-5							915	2,353		3,268
45 IAC 2.2-5-54	(3,646)	20,731	(6,331)		63	(16,000)	(8,603)	24,823		11,037
45 IAC 2.2-5-55					(251)		22,010	(16,043)		5,716
45 IAC 2.2-5-57					506		16,735			17,241
45 IAC 2.2-5-6	8,377			(129)	818			1,651		10,717
45 IAC 2.2-5-61	28,489		65	11,269	1,564			(3,207)		38,180
45 IAC 2.2-5-62	7,049			9,916						16,965
45 IAC 2.2-5-63								112,621		112,621
45 IAC 2.2-5-67				3,317						3,317
45 IAC 2.2-5-7					661					661
45 IAC 2.2-5-70		260	(915)		33,710					33,055
45 IAC 2.2-5-8	24,135	331,862	961,420	35,533	223,835	90,851	57,244	5,145,054	1,236	6,871,170
45 IAC 2.2-5-9	231	33,091						45		33,367
45 IAC 2.2-6-1	19,063	59,938	6,157	63,969	74,039		36,092	100,255		359,513
45 IAC 2.2-6-12				(4,373)						(4,373)
45 IAC 2.2-6-14		(464)	25	(936)	622	(38)	(1,118)	1,764		(145)
45 IAC 2.2-6-15								(223)		(223)
45 IAC 2.2-6-16		246								246
45 IAC 2.2-6-8	59,758	54,730	11,876	640,743	559,202	3,542	191,098	76,601		1,597,550
45 IAC 2.2-6-9					5,820					5,820
45 IAC 2.2-7-2				(2,713)	1,350					(1,363)
45 IAC 2.2-7-3					5,021					5,021
45 IAC 2.2-7-7				649				(816)		(167)
45 IAC 2.2-8-1								25		25
45 IAC 2.2-8-12	12,054	16,023	92,131	39,105	38,276		(95,945)	88,595		190,239
45 IAC 2.2-8-14				2,846						2,846
45 IAC 2.2-8-16								(5,062,361)		(5,062,361)
45 IAC 2.2-8-17								195,345		195,345
45 IAC 2.2-8-2			25	25						50
45 IAC 2.2-8-6								536		536
45 IAC 2.2-9-4		135	21		15,741					15,897
Grand Total	530,291	1,296,111	1,745,898	1,957,979	3,456,959	223,901	5,550,054	2,913,315	45,972	17,720,480

* See accompanying text for detail of SIC categories.

Sales and Use Tax Violations by Industry Group



Sales and Use Tax Dollars Assessed by Industry Group

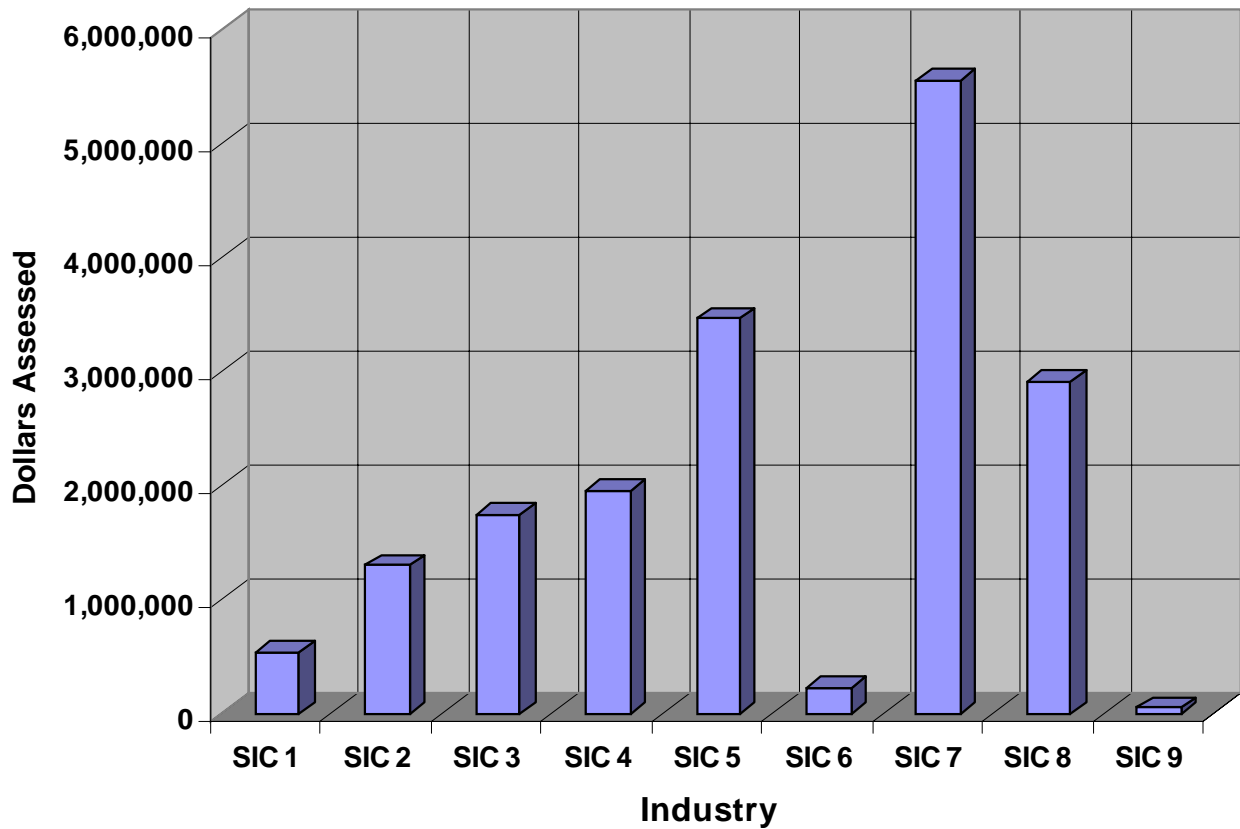


Exhibit E

Dollars Assessed in 45 IAC Citations by Industrial Code Adjusted Gross Income Tax

Sum of Results	SIC *									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 3.1-1-1	34,668	50,388	(79,199)	6,764	8,199		18,261	77,120	51,098	167,299
45 IAC 3.1-1-100								2,185		2,185
45 IAC 3.1-1-101								1,020		1,020
45 IAC 3.1-1-103					152,802		4,118	331		157,251
45 IAC 3.1-1-106		2,254			340			10,918		13,512
45 IAC 3.1-1-108					298					298
45 IAC 3.1-1-109		50,257	6,193	1,937	94	210	1,568,755	115,282		1,742,728
45 IAC 3.1-1-110	3,731			47,754						51,485
45 IAC 3.1-1-111		(65,888)	28,574		64,469			330,000		357,155
45 IAC 3.1-1-112						391,380				391,380
45 IAC 3.1-1-12								457,407		457,407
45 IAC 3.1-1-150			(9,700)	(6,261)	(427)			(10,766)		(27,154)
45 IAC 3.1-1-151					139,307					139,307
45 IAC 3.1-1-153	21,765			200,258	10,362		1,461,476	30,472		1,724,333
45 IAC 3.1-1-19				(400)						(400)
45 IAC 3.1-1-2		5,026		56,451	7,111		12,717	91,421	1,548	174,274
45 IAC 3.1-1-20					(332,391)					(332,391)
45 IAC 3.1-1-22			236,345							236,345
45 IAC 3.1-1-25			(17,000)		232,499			15,486		230,985
45 IAC 3.1-1-29			616,496	11,412	77,179	19,848		2,619,077		3,344,012
45 IAC 3.1-1-3				(6,685)	(195)			727		(6,153)
45 IAC 3.1-1-36		4,689						388		5,077
45 IAC 3.1-1-37				(4,982)	317					(4,665)
45 IAC 3.1-1-38		1,410	(16,086)				(2,519)	53,435		36,240
45 IAC 3.1-1-39	1,522	(301,400)	64,617	(6,995)	29,998					(212,258)
45 IAC 3.1-1-4							1,759			1,759
45 IAC 3.1-1-40			3,701				597			4,298
45 IAC 3.1-1-41	5,922		1,156		1,136					8,214
45 IAC 3.1-1-43				15,096	4,587			921		20,604
45 IAC 3.1-1-45		(456)	73	(1,249)	(2,201)			120		(3,713)
45 IAC 3.1-1-46				(200)						(200)
45 IAC 3.1-1-47	7,699		8,890							16,589
45 IAC 3.1-1-48				15,000	710			(7,125)		8,585

* See accompanying text for detail of SIC categories.

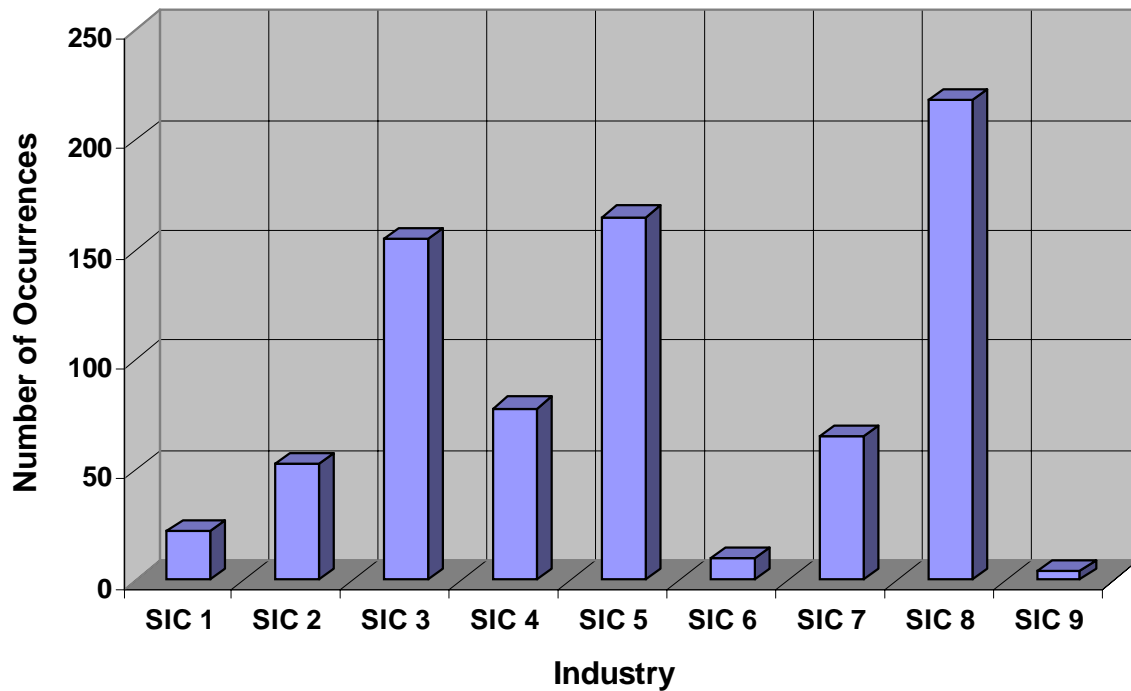
Exhibit E -- Cont.

Dollars Assessed in 45 IAC Citations by Industrial Code Adjusted Gross Income Tax

Sum of Results	SIC *									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 3.1-1-49				15,000	(1,879)		73,447			86,568
45 IAC 3.1-1-5	4,553	912	18,756	5,746			20,329	838,392	4,464	893,152
45 IAC 3.1-1-50	32,540	13,643	2,606	(696)	1,828,617			(1,600)		1,875,110
45 IAC 3.1-1-51		2,601	56,703	15,000	77,913		5,524	(820)		156,921
45 IAC 3.1-1-52	70	(4,027)	372,518	(1,614,545)	68,362		5,993			(1,171,629)
45 IAC 3.1-1-53		204,134	28,075		5,600			1,879,823		2,117,632
45 IAC 3.1-1-54			301							301
45 IAC 3.1-1-55					126		413			539
45 IAC 3.1-1-56		(52,366)			598					(51,768)
45 IAC 3.1-1-58	(3,727)									(3,727)
45 IAC 3.1-1-59			93							93
45 IAC 3.1-1-6					(66)			77		11
45 IAC 3.1-1-62		105,697			5,190,431		8,642			5,304,770
45 IAC 3.1-1-63				15,800						15,800
45 IAC 3.1-1-64			(880,181)							(880,181)
45 IAC 3.1-1-65					7,819		17,554			25,373
45 IAC 3.1-1-66			1,663					43,433		45,096
45 IAC 3.1-1-67					158			1,594		1,752
45 IAC 3.1-1-68					1,911			10,029		11,940
45 IAC 3.1-1-7								3,548	32,307	35,855
45 IAC 3.1-1-71								(2,566)		(2,566)
45 IAC 3.1-1-72		10,398	322,260				57,224			389,882
45 IAC 3.1-1-73								43,819		43,819
45 IAC 3.1-1-78								100		100
45 IAC 3.1-1-79					75					75
45 IAC 3.1-1-8	676,122	7,789	1,501,177	104,661	(122,310)	30	3,899,305	196,137		6,262,911
45 IAC 3.1-1-9	(69,149)	(603,137)	(3,368,250)	(51,018)	(272,814)	(2,195)	(19,172)	(69,028)		(4,454,763)
45 IAC 3.1-1-92			(581,525)	(10,731)	(70,277)		7,458	817,797		162,722
45 IAC 3.1-1-94	11,288	(14,766)	(14,725)		73,503	(11,332)	18,957	18,405		81,330
45 IAC 3.1-1-97	17,939	37,143	10,665	94,452	66,190	85,196	34,232	71,258		417,075
45 IAC 3.1-2-1		4,293		(85)	7,572	4,305	(52)	(453)		15,580
45 IAC 3.1-2-2	416	7,563	1,005	145	2,963	(3,849)	19,581	8,536		36,360
45 IAC 3.1-3-1		4,053	2,860	286	482		249	5,192		13,122
45 IAC 3.1-3-2								2,758		2,758
45 IAC 3.1-3-3			183							183
Grand Total	745,359	(529,790)	(1,681,756)	(1,098,085)	7,259,168	483,593	7,214,848	7,654,850	89,417	20,137,604

* See accompanying text for detail of SIC categories.

Adjusted Gross Income Tax Violations by Industry Group



Adjusted Gross Income Tax Assessed by Industry Group

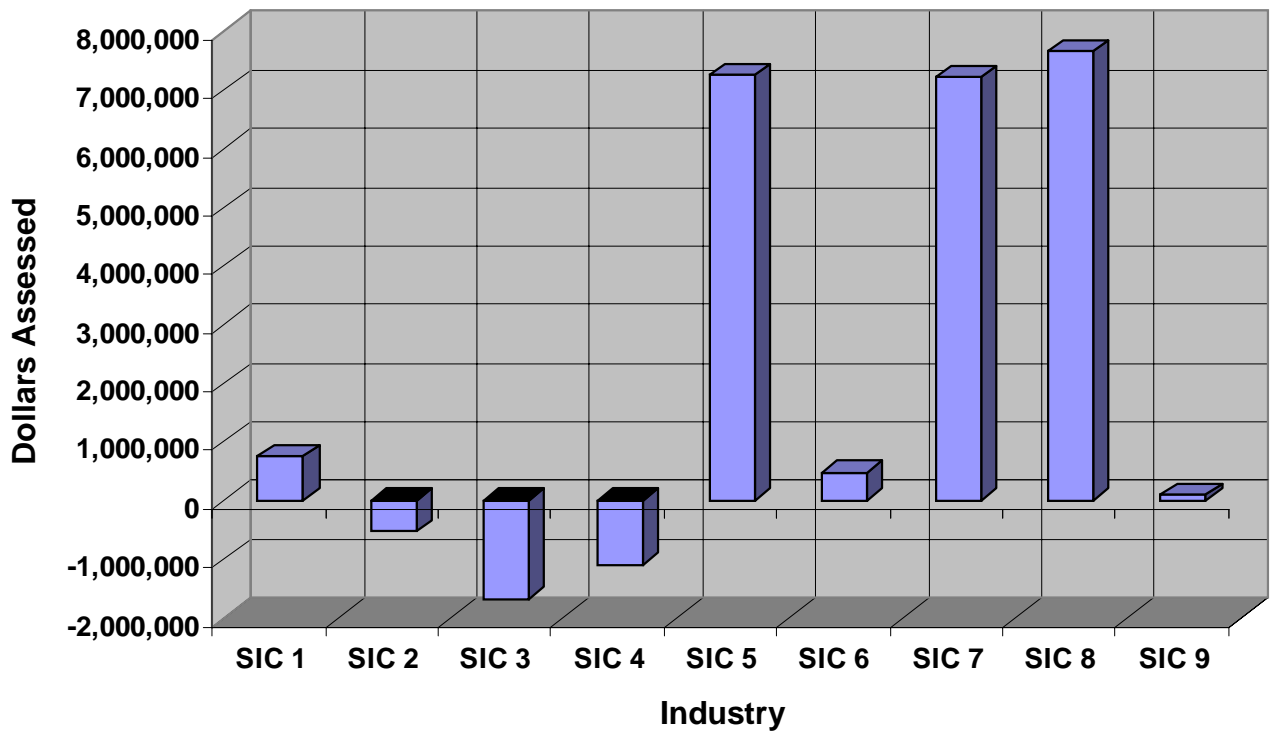


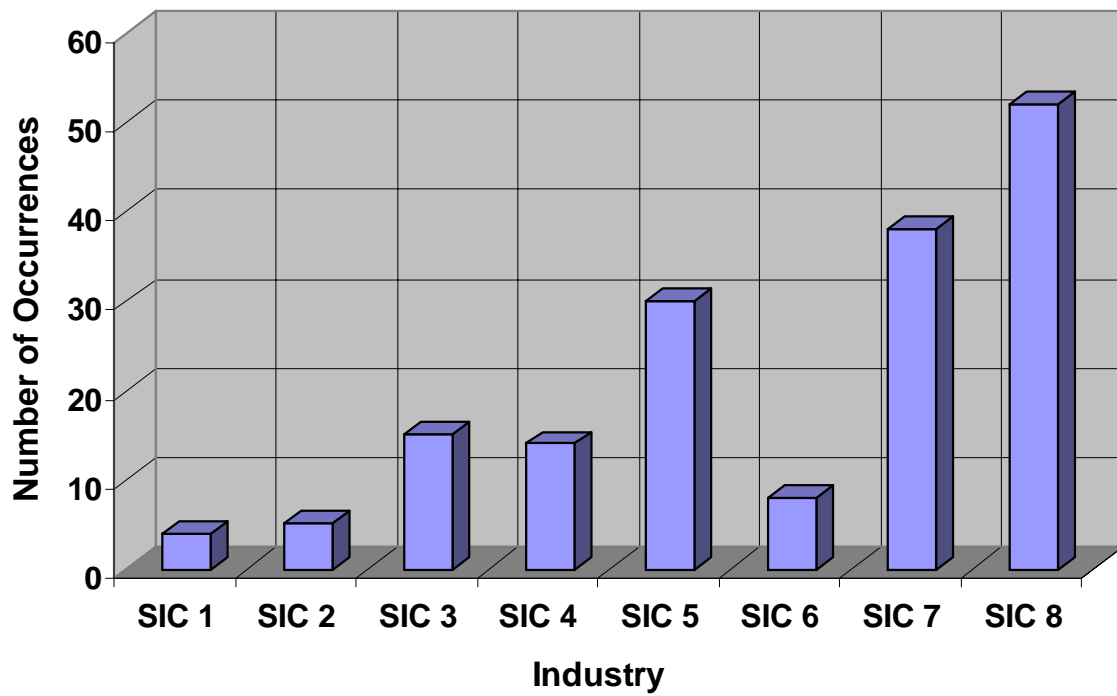
Exhibit F

Dollars Assessed in Misc. Code Violations by Industrial Code

Sum of Results	SIC *								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 15-11-3								77,349	77,349
45 IAC 15-3-5								534,743	534,743
45 IAC 15-4-1	5,336	(3,239)							2,097
45 IAC 15-5-1	13,125		56,281		37,852		453	36,869	144,580
45 IAC 15-5-7				1,022				88,152	89,174
45 IAC 15-9-2			(20,277)		(25,714)			338,227	292,236
45 IAC 17-2-3						1,093,981			1,093,981
45 IAC 17-3-1					14,437			243,876	258,313
45 IAC 17-3-5						3,807,744			3,807,744
45 IAC 17-5-2						7,698		(4,400)	3,298
45 IAC 18-2-3					31,600			39,900	71,500
45 IAC 18-5-1								2,260	2,260
45 IAC 18-5-2				(162)	8,051				7,889
IC 13-20-13-7				3,081			109		3,190
IC 4-32-15-1				14,148					14,148
IC 6-2.1-3-19					(68)				(68)
IC 6-2.1-4-3			72,190						72,190
IC 6-2.5-4-6					1,402				1,402
IC 6-2.5-5-13								70,616	70,616
IC 6-2.5-5-35					(36)		(3,880)	6,459	2,543
IC 6-2.5-5-37							(1,401)		(1,401)
IC 6-2.5-9-3							1,529		1,529
IC 6-3.1-4-2			(22)						(22)
IC 6-3.1-5-1			(1,081)						(1,081)
IC 6-3-2-12			(86,187)						(86,187)
IC 6-3-3-10			47,000						47,000
IC 6-5.5-2-1						254,682		(6,860)	247,822
IC 6-5.5-4-12								280	280
IC 6-5.5-4-3								803	803
IC 6-6-9-7-7					11,735				11,735
IC 6-6-9-7				794	3,177			1,855	5,826
IC 6-8.1-4-2	(473)	(417)	4,507	(792)	(420)	(65,085)	(3,450)	18,077	(48,053)
IC 6-8.1-9-1								2,630	2,630
IC 6-8.1-9-2			(1,371)						(1,371)
IC 6-9-12-5				579			8,967	(409)	9,137
IC 6-9-15-6							17,795		17,795
IC 6-9-18-3							5,223		5,223
IC 6-9-20-3				(378)					(378)
IC 6-9-20-5				372					372
IC 6-9-21-6		230			8,917				9,147
IC 6-9-23-4							656		656
IC 6-9-23-5							(14)		(14)
IC 6-9-26-6						105			105
IC 6-9-3-4							642		642
IC 6-9-8-2							23,568	17,965	41,533
Grand Total	17,988	(3,426)	71,040	18,664	90,933	5,099,125	50,197	1,468,392	6,812,913

* See accompanying text for detail of SIC categories.

Miscellaneous Code Violations by Industry Group



Miscellaneous Tax Dollars Assessed by Industry Group

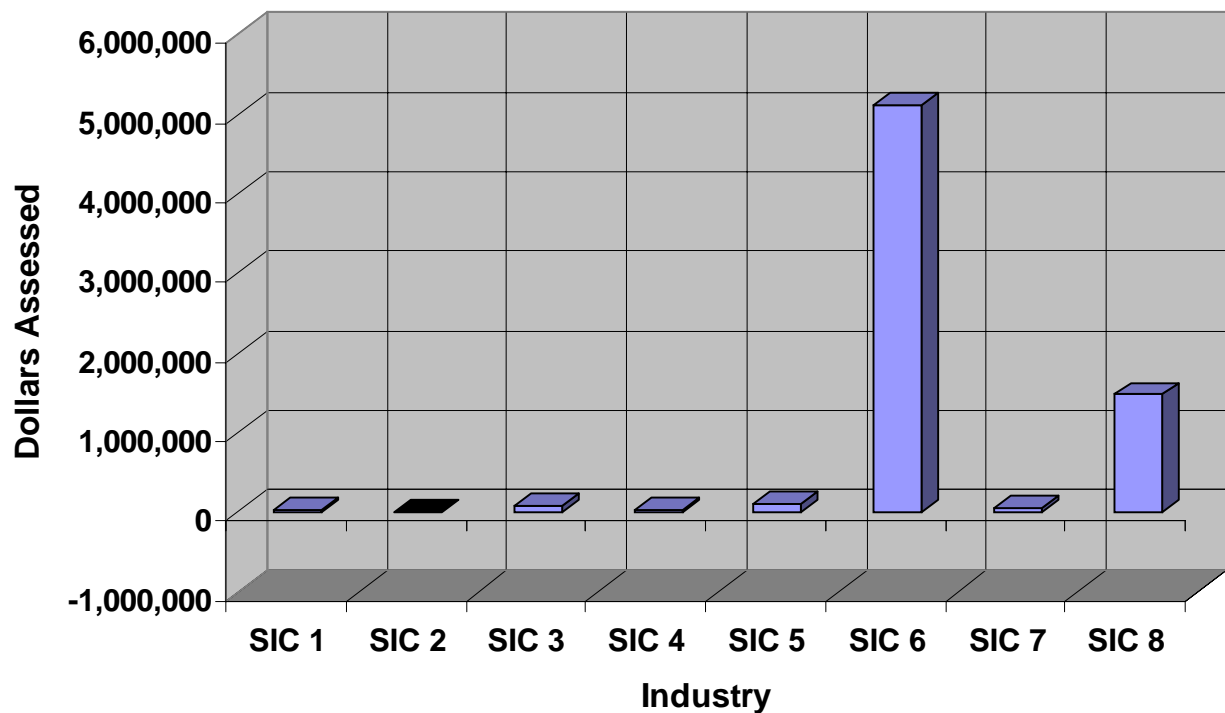


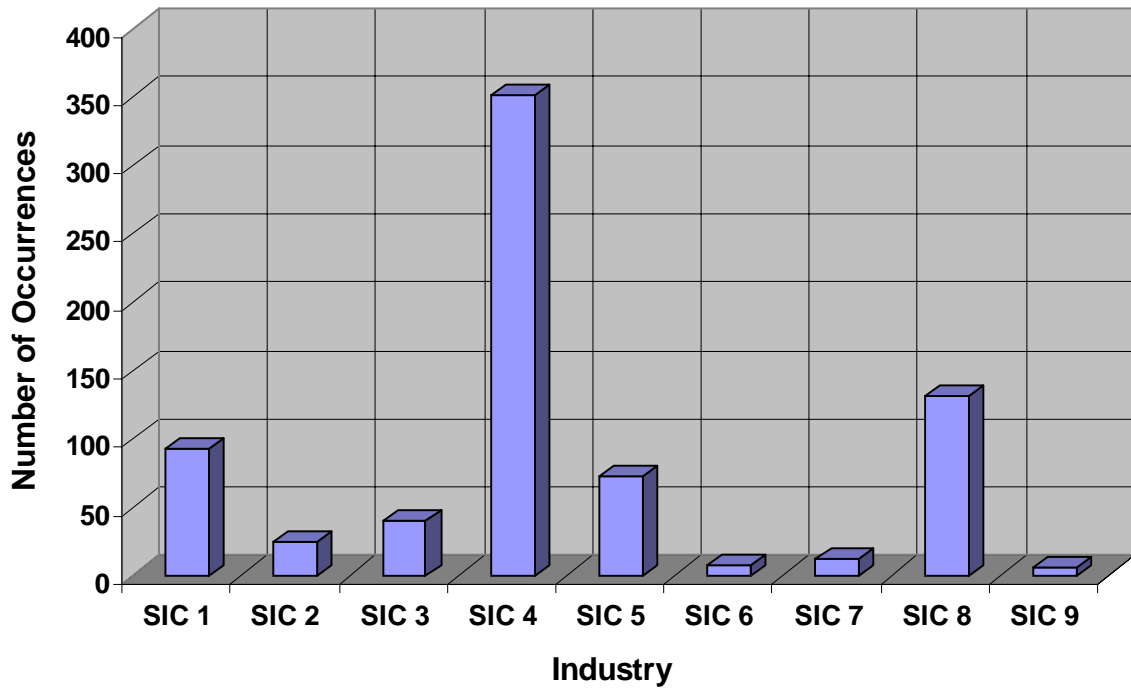
Exhibit G

Dollars Assessed in Code and Article Citations by Industrial Code Special Tax Audits

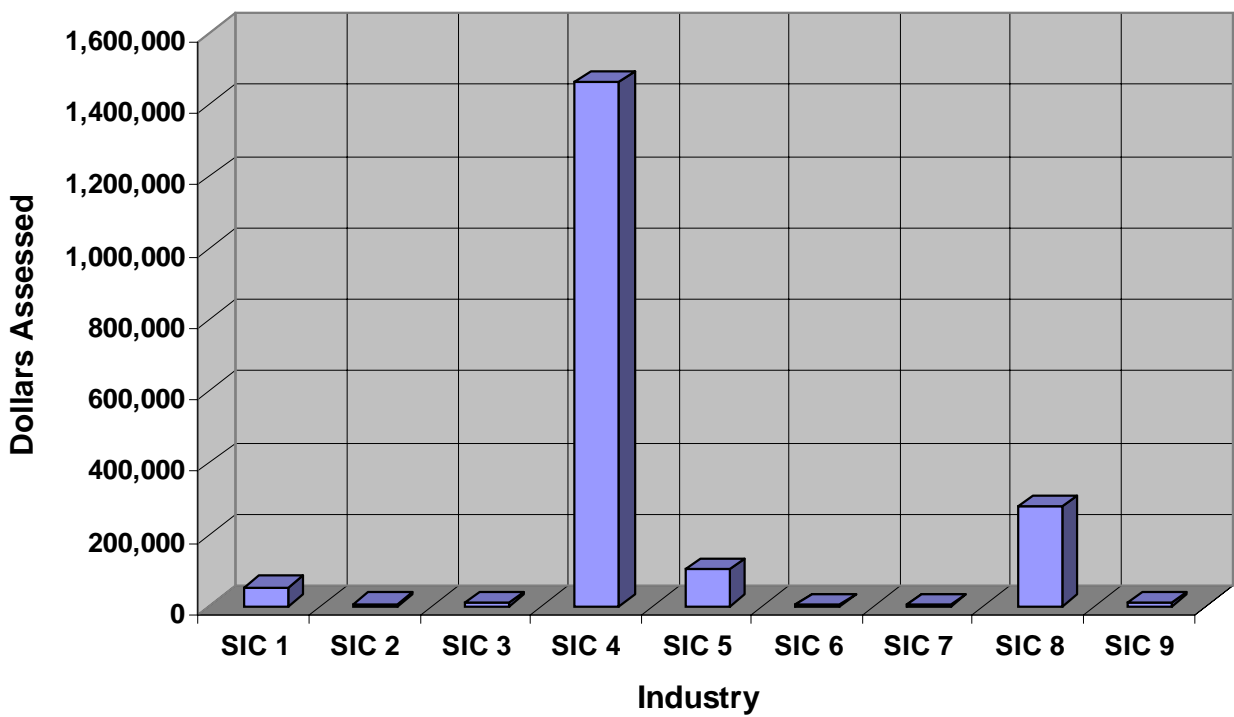
Sum of Results	SIC *									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
A550				529						529
IC 16-44-2-18					2,613					2,613
IC 6-6-1.1-201								817		817
IC 6-6-1.1-301								1,361		1,361
IC 6-6-1.1-502								150		150
IC 6-6-2.1-501								2,152		2,152
IC 6-6-2.1-502								300		300
IC 6-6-2.1-504								180		180
IC 6-6-2.5-28					300			1,012		1,312
IC 6-6-4.1-4	29,590	5	19,356	25,022	2,938	617	3,169	(10,863)		69,834
IC 6-6-4.1-6	(15,016)	31	(10,489)	(7,497)	(1,280)	65	(1,878)	19,956		(16,108)
IC 6-7-1-12	25,969		1,121		5,226			53,592		85,908
IC 6-7-2-7	1,023								9,769	10,792
IC 7.1-4-2-1					5,778					5,778
IC 7.1-4-3-1								2,260		2,260
IC 8-2.1-20-7		60		1,805			110	1,070	10	3,055
IC 8-2.1-22-39				69						69
IC 9-20-14								108		108
IC 9-20-6-2								93,882		93,882
IRP Article XV-1502	461	388	215	819,791	49,526	9		17,203		887,593
IRP Article XVII-1700	1,438		(10)	(2,398)	1,777		96	(412)		491
R1000	(11,298)	(5,538)	(887)	(64,476)	(5,080)	472	321	(47,916)		(134,402)
R1200				11,489			1,646	1,039		14,174
R1210				413,426						413,426
R500					(12)					(12)
R800	19,503	11,538	2,159	264,477	41,419	1,405	577	142,507		483,585
R810	946		(209)	(1,757)						(1,020)
R970				151				720		871
Grand Total	52,616	6,484	11,256	1,460,631	103,205	2,568	4,041	279,118	9,779	1,929,698

* See accompanying text for detail of SIC categories.

Special Tax Violations by Industry Group



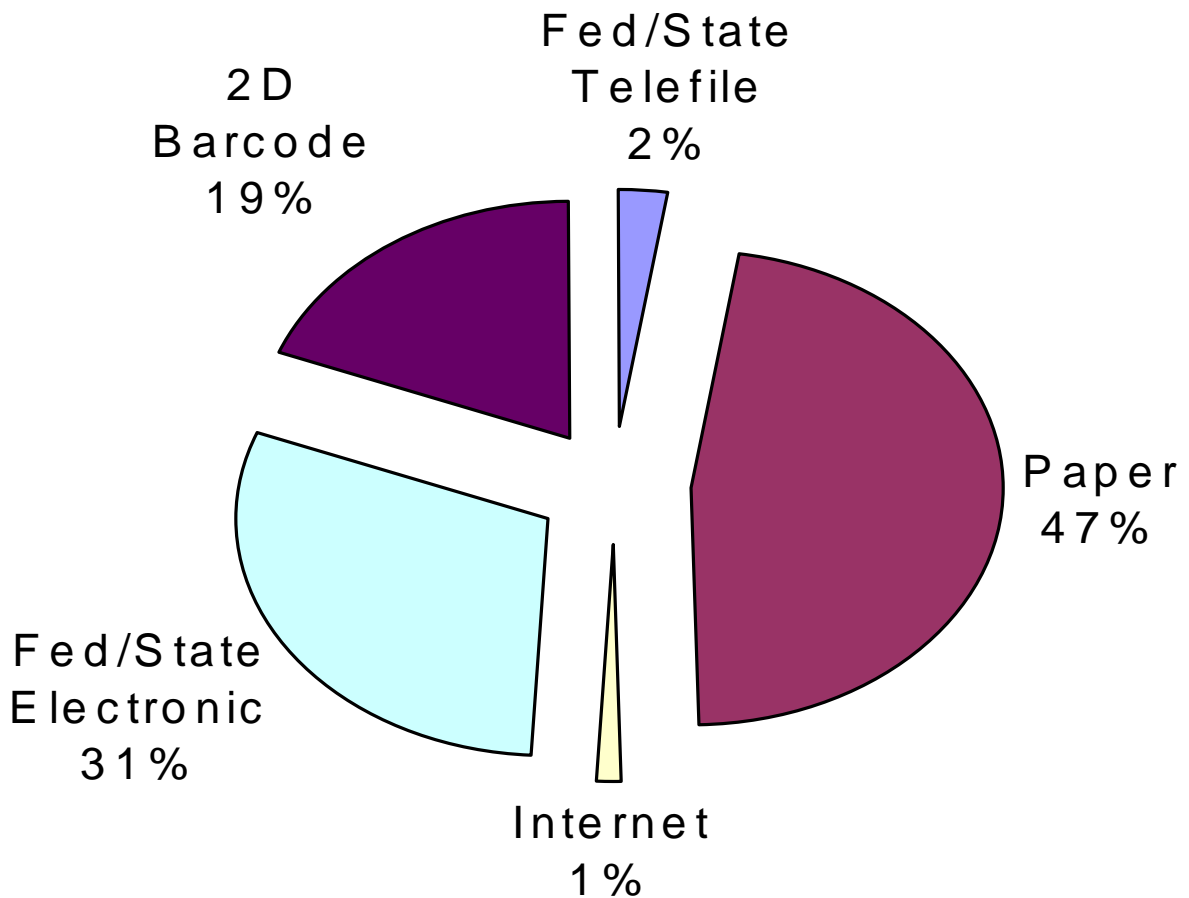
Special Tax Dollars Assessed by Industry Group



2001 Individual Returns Processed by June 30, 2002

Special thanks go out this year to everyone who utilized alternative methods of filing taxes, thereby saving the State of Indiana and Indiana taxpayers thousands of dollars in processing costs.

--Kenneth L. Miller, Commissioner, Indiana Department of Revenue



2001 Indiana Individual Returns by Type

Internet	43,383
2-D Barcode	561,700
Fed/State TeleFile	72,141
Fed/State Electronic	884,772
Paper	<u>1,357,525</u>
Grand Total	2,919,521

INDIANA DEPARTMENT OF REVENUE CONTACT INFORMATION

To obtain copies of forms, bulletins or other administrative pronouncements:

*By Internet, visit our Web site: www.IN.gov/dor. (Click on either the "Tax Forms" or "Publications" link.)

*By FAX, call our TaxFax at (317) 233-2329 (from the handset of a FAX machine).

*By telephone, call our Forms Order Line at (317) 615-2581.

For refund information:

Call our Automated Taxpayer Information System (and press "1" in response to instructions given) from a touch tone telephone: (317) 233-4018 between 8:00 a.m. Monday - 10:00 p.m. Saturday.

Other taxpayer services:

To speak with a taxpayer assistant regarding individual income taxes, call our Taxpayer Services Division at (317) 232-2240 (8:15 a.m. - 11:15; 12:30 - 4:30 p.m.). For corporate tax questions, call (317) 615-2662. Indianapolis Walk-In Assistance Center open 8:00 a.m. - 4:30 p.m.

To obtain a list of the department's Taxpayer Assistance Phone Numbers by specific tax types, go to: www.IN.gov/dor/assistance/indy.html.

For departmental Post Office box numbers, click here: www.IN.gov/dor/filingdeadlines/pdf/po_boxes00.pdf.

To obtain a list of the department's District Offices, go to www.IN.gov/dor/assistance/district.html.

Calendar deadlines:

View IDOR calendars of tax filing deadlines here: www.IN.gov/dor/filingdeadlines.

Motor Carrier Services:

Indiana Department of Revenue, Motor Carrier Services Division, 5252 Decatur Boulevard, Suite R, Indianapolis, IN 46241, (317) 615-7200, www.IN.gov/dor/mcs.

Commercial Drivers License, (317) 615-7335; IRP, (317) 615-7340; Indiana State Police, (317) 615-7373; Oversize/Overweight Vehicle Permitting, (317) 615-7320; Motor Carrier Fuel Tax/IFTA, (317) 615-7345; Operating Authority, (317) 615-7290; Oversize/Overweight Insurance, (317) 615-7349; Superload Permits, (317) 615-7325.

Other useful contact information:

State Information Center, (317) 233-0800 (counselors available 8:15 a.m. - 4:45 p.m.).

To have other Indiana State forms Faxed to you, contact the Indiana Small Business Development Center's Indiana Faxback and Bulletin Board System: (800) 726-8000.

To contact the IRS: www.irs.gov/.

To obtain a list of telephone numbers for taxing authorities in other states, go to *Small Business Taxes & Management's* Web page, www.smbiz.com/sbrl009.html.